84-1858

Office - Supreme Court, U.S.
FILED
MAY 28 1985
ALEXANDER L. STEVAS,
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

LEX TEX LTD INC,

Petitioner,

v.

J. P. STEVENS & CO., INC.
BADISCHE CORPORATION AND
BURLINGTON INDUSTRIES, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

JAMES W. CRABTREE
SMATHERS & THOMPSON
2170 Charlotte Plaza
Charlotte, North Carolina 28244
(704) 334-9988

ROBERT C. MILLER
OBLON, FISHER, SPIVAK,
MCCLELLAND & MAIER, P.C.
1755 S. Jefferson Davis Highway
Arlington, Virginia 22202
(703) 521-5940

PRESS OF BYRON S. ADAMS, WASHINGTON, D.C. (202) 347-8203

92 pp

QUESTIONS PRESENTED

1. Whether the Court of Appeals for the Federal Circuit has misconceived the mission and powers assigned to it by Congress and has now established itself outside the Federal Judicial System as the sole arbiter of all matters arising under the Patent Article of the Constitution by usurping the fact-finding functions of the United States District Courts and by creating its own body of substantive law in disregard of long-established precedents of this Court concerning equity, negligence and fraud which are routinely applied in all other courts of the Federal Judicial System.

2. Whether inequitable conduct in procuring method claims of a patent which also contains product claims must, as a matter of law, automatically result in holding all claims of the patent unenforceable without regard to any equitable considerations where:

a. The inequitable conduct was the nondisclosure of two prior art patents which (1) were in the examiner's files throughout the five years of prosecution of the subject patent, (2) were in the classes and subclasses of prior art patents that were repeatedly searched by the examiner during the prosecution of the subject patent, and (3) were known to the primary and assigned examiners and were cited by them in other patent applications during the pendency of the subject patent,

b. No charge nor finding of inequitable conduct was made with respect to any product claim. (The *only* claims asserted in the litigation were product claims.)

c. The conduct fell short of actual fraud or deliberate misrepresentation.

d. The beneficiaries of the newly fashioned standard of conduct in patent applications were found by the jury to have wilifully infringed the claims in suit.

3. Whether the Court of Appeals for the Federal Circuit erred in determining that conduct in the prosecution of a patent application in 1957 to 1963 was inequitable based upon the

application of Rule 56 of the Patent and Trademark office which was first announced in 1977.

4. Whether the Court of Appeals for the Federal Circuit erred by announcing for the first time changes in: (a) the requisite elements that must be proven to establish inequitable conduct and (b) the burden of proof concerning inequitable conduct and then applying those changes *ex post facto* without affording Petitioner a remand to make the proofs now required.

TABLE OF CONTENTS

	Page
STATEMENT PURSUANT TO RULE 21(B)	ii
TABLE OF AUTHORITIES	iii
CITATIONS TO OPINIONS BELOW	1
JURISDICTION	1
QUESTIONS PRESENTED	1
RULES INVOLVED	3
STATEMENT OF THE CASE	4
REASONS FOR GRANTING THE WRIT	7
CONCLUSION	23
APPENDIX	
Findings of Fact and Conclusions of Law of the District Court	A-1a
Opinion of the Court of Appeals for the Federal Circuit (November 9, 1984)	B-24a
Order of the Court of Appeals for the Federal Circuit denying Petitioner's Petition for Rehearing (February 26, 1985)	C-47a
Order on Motion for Certification and Stay Under § 1292(b)	D-49a
Table of Six United States Letters Patent	E-51a
"Comparative Analysis of Petitions for Writs of Certiorari Complaining of *de Novo* Fact Finding by the Circuit Courts of Appeal," from the Petition for Writ of Certiorari and Appendix filed by petitioner Valmet Oy and TVW Papermachines, S.Ct. docket number 84-1664	F-52a

STATEMENT PURSUANT TO RULE 21(B)

The caption of the case in this Court contains the names of all parties in the proceedings below.

TABLE OF AUTHORITIES

CASES: Page

Admiral Corp. v. Zenith Radio Corp., 296 F.2d 708 (10th Cir. 1961) 16

American Hoist & Derrick Co. v. Sowa & Sons, Inc., 725 F.2d 1350 (Fed. Cir. 1984), cert. denied, 105 S.Ct. 95 (1984) 20

Amstar Corp. v. Envirotech Corp., 730 F.2d 1476 (Fed. Cir. 1984); cert. denied 105 S.Ct. 306 (1984) 8

Argus Chemical Corporation v. Fibreglass- Evercoat Company, Inc. (Appeal 84-1418, decision April 4, 1985) ____ F.2d ____ (Fed. Cir. 1985) 16, 27

Baginsky v. United States, 697 F.2d 1070 (Fed. Cir. 1983), cert. denied, 104 S.Ct. 423 (1983) 8

Bally Manf. Corp. v. Diamond, 629 F.2d 955 (4th Cir. 1980) 6, 26

Becton, Dickinson & Co. v. Sherwood Medical Industries, 516 F.2d 514 (5th Cir. 1975) 22

Bordon, Inc. v. Occidental Petroleum Corp., 381 F. Supp. 1178 (S.D. Tex. 1974). 22

Clairol, Inc. v. Save-Way Industries, Inc. 210 U.S.P.Q. 459 (S.D. Fla. 1980) 22

Concerned Citizens of Vicksberg v. Sills, 567 F.2d 646 (5th Cir. 1978) 9

Digital Equipment Corp. v. Diamond, 653 F.2d 701 (1st Cir. 1981) 16

Driscoll v. Cebalo, 731 F.2d 878 (Fed. Cir. 1984) . 21, 22, 24

E.I. duPont de Nemours & Co. v. Berkley & Co., 620 F.2d 1247 (8th Cir. 1980) ..... *passim*

Evans v. Eaton, 20 U.S. 356 (1822) 12

Farmhand, Inc. v. Lahman Mfg. Co., Inc.., 192 U.S.P.Q. 749 (D. S.D. 1976) aff'd, 568 F.2d 112 (8th Cir.); cert. denied, 436 U.S. 913, 98 S.Ct. 2254 (1978) 22

Graver Tank & Manufacturing Co. v. Linde Air Products Co., 336 U.S. 271, 69 S.Ct. 535 (1949), aff'd on rehearing, 339 U.S. 605 (1950) 8

Table of Authorities Continued

	Page
Graves v. Romney, 502 F.2d 1062 (8th Cir. 1974)	15
Hercules, Inc. v. Exxon Corp., 207 U.S.P.Q. 1088 (D. Del. 1980)	16
Hughes Aircraft Co. v. United States, 717 F.2d 1351 (Fed Cir. 1983)	8
In re Clark, 187 U.S.P.Q. 209 (CCPA 1975)	13
In re Dien, 680 F.2d 151 (CCPA 1982)	6
In re Multidistrict Litigation Involving Frost Patent, 540 F.2d 601 (3rd Cir. 1976)	13, 14, 15, 18
In re Yarn Processing Patent Validiy Litigation, 472 F. Supp. 180 (S.D. Fla. 1979)	3
Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 456 U.S. 844, 102 S.Ct. 2182 (1982)	8
Jones v. Hardy, 727 F.2d 1524 (Fed. Cir. 1984)	8
Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437 (Fed. Cir. 1984)	20
Liberty National Insurance Holding Co. v. Charter Co., 734 F.2d 545 (11th Cir. 1984)	15
Lindemann v. American Hoist and Derrick Co., 730 F.2d 1452, (Fed. Cir. 1984)	8
Norton v. Curtiss, 433 F.2d 779 (C.C.P.A. 1970)	*passim*
Pendergrass v. New York Life Ins. Co., 181 F.2d 136 (8th Cir. 1950)	9
Pfizer & Co. v. F.T.C., 401 F.2d 574 (6th Cir. 1968)	13
Plantronics, Inc. v. Roanwell Corp., 403 F.Supp. 138 (S.D.N.Y. 1975), aff'd, 535 F.2d 1397 (2d Cir.), cert. denied, 429 U.S. 1004, 97 S.Ct. 538 (1976)	22
Preemption Devices, Inc. v. Minnesota Mining and Mfg. Co., 732 F.2d 903 (Fed. Cir. 1984)	11
Pullman-Standard v. Swint, 456 U.S. 273, 102 S.Ct. 1781 (1982)	8

Table of Authorities Continued

	Page
Raytheon Co. v. Roper Corp., 724 F.2d 951 (Fed. Cir. 1983); cert. denied, 105 S.Ct. 127 (1984)	8
RCA Corp. v. Applied Digital Data Systems, Inc., 730 F.2d 1440 (Fed. Cir. 1984)	8
Reinke Mfg. Co., Inc. v. Sidney Mfg. Corp., 446 F. Supp. 1056 (D. Neb. 1978) aff'd, 594 F.2d 644 (8th Cir. 1979)	22
Richdel Inc. v. Sunspool Corp., 714 F.2d 1573 (Fed. Cir. 1983)	20
Rizzo v. Goode, 423 U.S. 362, 96 S.Ct. 598 (1976)	15
Swann v. Charlotte-Mecklenburg Board of Education, 402 U.S. 1, 91 S.Ct. 1267 (1971)	15
Union Carbide Corp. v. Filtrol Corp., 170 U.S.P.Q. 482, 516 (C.D. Cal. 1971), aff'd, 179 U.S.P.Q. 209 (9th Cir. 1973)	17, 22
United States vs. United States Gypsum Co., 333 U.S. 364, 67 S.Ct. 371 (1948)	8
Wheeling Steel Corp. v. American Rolling Mill Co., 82 F.2d 97 (6th Cir. 1936)	15
Wolens v. F. W. Woolworth Co., 703 F.2d 983 (7th Cir. 1983)	22
STATUTES:	
28 U.S.C. § 1254(1)	1
28 U.S.C. § 1338	3
35 U.S.C. § 112	12
35 U.S.C. § 251	12
35 U.S.C. § 282	11, 12, 14
35 U.S.C. § 284	14
35 U.S.C. § 288	13
RULES:	
Rule 56, Patent and Trademark Office	*passim*
Rule 52(a), Fed. R. Civ. P.	8, 9

Table of Authorities Continued

Page

CONGRESSIONAL MATERIALS:
Federal Courts Improvement Act of 1982, P.L. 97-164 5
H.R. Rep. No. 97-312, 97th Cong., 1st Sess. 37 (1981) 6, 8

OTHER AUTHORITIES:
9 Wright & Miller, *Federal Practice & Procedure* (1971). 9

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit entered in the above entitled cases on November 9, 1984.

CITATIONS TO OPINIONS BELOW

The relevant Findings of Fact and Conclusions of Law of the District Court are printed in the appendix hereto (A-1a). The opinion of the Federal Circuit is printed in the appendix (B-24a) as reported at 747 F.2d 1553 (Fed. Cir. 1984). The order of the Federal Circuit ruling on Petitioner's Motion for Reconsideration is also printed in the appendix (C-47a).

JURISDICTION

The Mandate of the Federal Circuit is dated March 7, 1985, and was entered on the same date, following denial of petitioner's motion for rehearing on February 26, 1985. The jurisdiction of this Court is evoked under 28 U.S.C. § 1254(1).

RULES INVOLVED

The rules involved are Rule 56 of the Patent and Trademark Office and Rule 52(a), Fed. R. Civ. P.

Rule 56 [PTO]

> A duty of candor and good faith toward the Patent and Trademark Office rests on the inventor, on each attorney or agent who prepares or prosecutes the application and on every other individual who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application. All such individuals have a duty to disclose to the Office information they are aware of which is material to the examination of the application. Such information is

material where there is a substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent. The duty is commensurate with the degree of involvement in the preparation or prosecution of the application. (adopted 1977)

Rule 52(a) [Fed. R. Civ. P.]

(a) Effect. In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon, and judgment shall be entered pursuant to Rule 58; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its actions. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. It will be sufficient if the findings of fact and conclusions of law are stated orally and recorded in open court following the close of the evidence or appear in an opinion or memorandum of decision filed by the court. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41(b).

STATEMENT OF THE CASE

The Lex Tex patent in suit is 3,091,912 ('912) issued on June 4, 1963 containing claims for a method for making synthetic yarn as well as product claims covering the yarns *per se*. Significantly, the method claims and the product claims of the '912 patent are *completely independent* as to terminology and scope, and the Lex Tex suit was based only on the product claims. Respondents, Burlington Industries, Inc. ("Bur-

lington"), J. P. Stevens & Co., Inc. ("Stevens") and Badische Corporation ("Badische") manufactured synthetic textured yarn products covered by the product claims which was used in the manufacture of woven and knit fabrics. The respondents are called "Throwsters" because their yarn processing operations are commonly referred to as "throwing" yarn. The nature and importance of the Lex Tex patent rights is discussed by the Judicial Panel on Multidistrict Litigation at 341 F. Supp. 376 (JPML 1972) but suffice it to say that the yarn claimed in the patent in suit was the polyester texturized yarn used in the "double-knit" fabrics made into wearing apparel during the double-knit craze of the '70's.

The several litigations involving these and related patents were commenced in 1969 and consolidated as MDL 82 by the Judicial Panel on Multidistrict Litigation in 1972, *supra*. Following consolidation the Throwsters filed summary judgment motions seeking declarations of unenforceability because of patent misuse. Thes motions were granted and in 1976 Lex Tex filed additional patent infringement actions on the premise that the previously adjudicated misuse had been purged. A three-week bench trial on the issue of purge was held in 1979 with a determination that Lex Tex had purged the misuse as of May 31, 1977. 472 F. Supp. 180 (S.D. Fla. 1979). Prior to the cases reaching trial on the merits, the district court ordered Lex Tex to seek reissue of its patent. After active reissue proceedings that took over 2½ years, the Board of Appeals rejected certain of the method claims of the '912 patent but found all the product claims valid. Based upon that opinion, Lex Tex asserted only valid product claims in consolidated trials which went from May to December 21, 1982.[1] *Lex Tex*

[1] In essence, there were five separate trials involving the same parties. The first was the three-week purge trial in 1979. The remaining issues of validity, infringement, inequitable conduct, damages and antitrust defenses were trifurcated into three trials. Phase I was a six-week jury trial on validity and infringement which ended in a hung jury. Next was a multiweek bench trial on fraud on the PTO. Then came the retrial before a jury of Phase I and finally there was a jury trial on damages and antitrust defenses. The district court's jurisdiction was based on 28 U.S.C. § 1338.

prevailed on all issues. Although appeals were taken on many issues, the Federal Circuit considered only the issue of unenforceability due to alleged inequitable conduct during the prosecution of the patent (1957-1963) and reversed the district court's conclusion—reached after twelve years of litigation, five trials, over five months of testimony and evidence, and review of thousands of pages of exhibits—that no such inequitable conduct had occurred. The inequitable conduct found *de novo* by the Federal Circuit was said to consist of non-disclosure of two prior art patents. Significantly, these two patents were in the files of the Patent Office and were known to the PTO examiners during the entire five years the '912 application was pending. The Federal Circuit, moreover, found inequitable conduct *only* with respect to method claims which were not in suit, but nonetheless held the entire patent, including the four product claims in suit, automatically unenforceable because of inequitable conduct involving the method claims alone. In so doing, the Federal Circuit rejected well-reasoned opinions of sister circuits stating flatly that they are not "precedent" in the Federal Circuit.

REASONS FOR GRANTING THE WRIT

1.

The Court of Appeals for the Federal Circuit has misconceived the mission and powers assigned to it by Congress and has now established itself outside the Federal Judicial System as the sole arbiter of all matters arising under the Patent Article of the Constitution by usurping the fact-finding functions of the United States District Courts and by creating its own body of substantive law in disregard of long-established precedents of this Court concerning equity, negligence and fraud matters which are routinely applied in all other courts of the Federal Judicial System.

When Congress enacted the Federal Courts Improvement Act of 1982, P.L. 97-164, creating the Federal Circuit and granting it exclusive jurisdiction over patent appeals, it specifically identified constitutional limitations on appellate review, and expressed its concern that the new Federal Circuit abide by them. Well, *it has not*, as evidenced by the growing number of cases presented to this Court, many of which complain that the Federal Circuit repeatedly usurps fact-finding functions of district courts.[2] Congress found it particularly significant that the CCPA, a predecesor Court to the Federal Circuit, routinely made *de novo* fact-findings concerning patent matters and Patent and Trademark Office appeals based on its own expertise and that of experts working as technical advisors to the Court. In the legislative history of the Federal Courts Improvement Act, Congress stated its concern that the prior experience of the CCPA would lead to improper *de novo* fact-finding in patent cases beyond the powers of a federal appeals court.

> It is important to understand and appreciate the fundamental difference between the use of technical advisors by the Court of Customs and Patent Appeal judges and the ex parte appeals from the Patent and Trademark Office which they now consider and a similar type of help for judges who are called upon to resolve technical issues in adversary patent infringement cases of the kind that will now be heard by the Court of Appeals for the Federal Circuit----.
>
> [T]o use these advisors in adversary patent infringement cases and have them review and assess the technical aspects of the evidence, as developed by the sworn testi-

---

[2]See "Comparative Analysis of Petitions for Writs of Certiorari Complaining of *de Novo* Fact Finding by the Circuit Courts of Appeal", appearing on A-43 of Petition for Writ of Certiorari and Appendix filed by Petitioner Valmet Oy and TVW Papermachines with the Clerk of the Supreme Court of the United States on April 19, 1985, Docket No. 84-1664, reproduced for convenience in the Appendix hereto on page A.52a.

> mony of witnesses and as covered by the findings of fact entered by the trial judge, is quite a different matter [from their use in Patent Office appeals]. It is well established that factual issues in a patent case must be tried and decided by the trial judge or a jury in precisely the same manner as such issues are tried in any other kind of a lawsuit. The technical aspects of a patent case are factual issues, and patent cases are reviewed in the Circuit Courts of Appeal in the same manner as with other appeals.[3]

The Federal Circuit's approach to review of district courts' fact-finding is directly contrary to the intent of the enabling legislation that brought it into being. Congress was wary that the appellate judges on the new court might inappropriately rely on their own suppositions about scientific matters (as was done here—See Federal Circuit opinion App 36a-38a) or on their "technical advisors," rather than on the record and district court findings, in reviewing cases coming before it.

Indeed, here the Federal Circuit specifically relied on the advice of so-called "technical advisors" and based its conclusion of inequitable conduct thereon. The district court required Lex Tex to seek reissue under the now abandoned "Dann Reissue" proceedings. In the face of precedent holding such reissue meaningless[4] where the trial court has itself determined the same issue, the Federal Circuit relied entirely on technical advice from the reissue as the basis for reversal:

> Error resulted from a failure to give primary consideration to events involved in the PTO reissue proceeding. (747 F.2d 1553 at 1562; A. 36a)

In other words, the Federal Circuit relied on the opinion of a patent examiner, based upon hearsay affidavits and lawyer's arguments, rather than considered findings of fact and con-

---

[3]H.R. Rep. No. 97-312, 97th Cong., 1st Sess. 37 (1981).

[4]*In re Dien*, 680 F.2d 151 (CCPA 1982). See also *Bally Manf. Corp. v. Diamond*, 629 F.2d 955 (4th Cir. 1980).

clusions of law entered by a Chief United States District Court Judge, following a full and complete trial in accordance with the usual rules of federal practice.

The Commission on Revision of the Federal Court Appellate System (Hruska Commission), which laid the groundwork for the establishment of the Federal Circuit, heard extensive testimony on the inherent dangers of specialized courts. Justice Stevens, then of the Court of Appeals with the heaviest patent caseload (the Seventh Circuit), cautioned that specialized courts presented special risks for the administration of justice in the federal courts.[5] The Seventh Circuit Bar Association stressed that "specialization more often than not produces judges who approach their cases with biases arising from their limited experience," and that "[o]ur judicial system has traditionally compensated for this bias by providing appeals as a matter of right from specialized trial courts to appellate courts of general jurisdiction."[6] The association also specifically argued that the "technical advisors" that had been proposed as chambers staff for Circuit Judges in the Federal Circuit had no place in review of federal district court judgments under Rule 52.

The Hruska Commission, heeding those warnings, cautioned Congress that "Judges of a specialized court, given their continued exposure to and great expertise in a single field of law, *might impose their own views of policy even where the scope of review under the applicable law is supposed to be more limited.*"[7]

Congress responded to those concerns. After cautioning that it would be improper to use technical advisors in adversary patent infringement cases coming from the federal district

---

[5]Senate Judicial Committee, Subcommittee on Improvements in Judicial Machinery, Position Paper of the Bar Association of the Seventh Judicial Circuit on S-677 and S-678, 97th Cong., 1st Sess. 9 (1981).

[6] *Id.* at 7.

[7] *Id.* at 13 (emphasis supplied).

courts, the House Committee Report emphasized that "[i]t is well established that *factual issues in a patent case must be tried and decided by the trial judge or a jury in precisely the same manner as such issues are tried in any other kind of a lawsuit*," and "it is the settled practice of the circuit courts of appeals in patent cases to honor and respect Rule 52(a) F.R.C.P."[8]

What Congress and the Hruska Commission feared has come to pass as a matter of policy in the Federal Circuit. In this case and the closely related pattern of cases discussed above,[9] the Federal Circuit has departed sharply from this Court's teachings in decisions such as *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 336 U.S. 271 (1949), *United States vs. United States Gypsum Co.*, 333 U.S. 364 (1948), *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982) and *Pullman-Standard v. Swint*, 456 U.S. 273 (1982).

Practically, there is no longer any basis for traditional "conflict" jurisdiction in patent matters. The Federal Circuit is the sole appellate court concerned with them. That should not translate to carte blanche to depart from traditional principles of equity, negligence and fraud.

Predictably, at least two of the new court's own members have repeatedly criticized their court's usurpation of district courts' fact-finding. One of them has correctly remarked that the new Court of Appeals "fails to recognize that this court and [trial courts] are not a single court with both original and appellate jurisdiction," and is "improperly stepp[ing] into the province of the fact finder."[10]

---

[8]H. Rep. No. 97-312, 97th Cong., 1st Sess 37 (1981)(emphasis supplied).

[9]See also *Amstar Corp. v. Envirotech Corp.*, 730 F.2d 1476 (Fed. Cir. 1984; *cert. denied* 105 S.Ct. 306 (1984); *Lindemann v. American Hoist and Derrick Co.*, 730 F.2d 1452 (Fed.Cir. 1984); *Raytheon Co. v. Roper Corp.*, 724 F.2d 951 (Fed. Cir. 1983).

[10]*Baginsky v. United States*, 697 F.2d at 1077 (Kashiwa, J., dissenting); *Jones v. Hardy*, 727 F.2d at 1534-35 (Kashiwa, J., dissenting); Accord, *RCA Corp. v. Applied Digital Data Systems, Inc.*, 730 F.2d at 1449 (Kashiwa, J., dissenting); *Hughes Aircraft Co. v. United States*, 717 F.2d at 1367 and n.2 (Davis, J., dissenting).

Rule 52(a) and the related principles are important because they are fair and crucial to the judicial function. They are also of crucial importance to the effective functioning of the judicial system:

> The entire responsibility for deciding doubtful fact questions in a nonjury case should be, and we think it is, that of the district court. The existence of any doubt as to whether the trial court or this Court is the ultimate trier of fact issues in nonjury cases is, we think, detrimental to the orderly administration of justice, impairs the confidence of litigants and the public in the decisions of the district courts, and multiplies the number of appeals in such cases.

Pendergrass v. New York Life Ins. Co., 181 F.2d 136, 138 (CA8 1950), quoted in 9 Wright & Miller, *Federal Practice & Procedure* § 2587 (1971).

The Federal Circuit's decision here demonstrates that the Congressional concerns were fully justified. Moreover, we respectfully suggest that this Court, by repeatedly rejecting petitions for certiorari on this very point, gives encouragement to the Federal Circuit to continue to review cases *de novo* and worse, to announce changes in the law and then apply that *new* law by a *de novo* analysis, without affording the appellee a remand. The other circuit courts have long recognized that when changes in the governing principles of law or the facts occur between the time a case is tried and the time it is reviewed on appeal, the "preferred procedure" is to remand the case to give the parties and the district court an opportunity to consider the case in light of those changes. *See e.g., Concerned Citizens of Vicksberg v. Sills*, 567 F.2d 646, 649-50 & n.5 (5th Cir. 1978). Indeed, the appellate reporters are replete with examples of decisions in which a remand has been routinely and summarily ordered in several circumstances.

The present case presents a particularly good vehicle for this Court to enunciate the proper scope of appellate review for the new Court of Appeals, because it presents the problem sharply

and it involves several distinct categories of refusal to defer to district court fact finding: Second-guessing the district court's assessment of witness credibility and the district court's evaluation of a lengthy record; rejecting findings simply because the Federal Circuit would have given greater weight to certain evidence; citing legal issues in a manner inconsistent with underlying findings that have not been held clearly erroneous; and making determinations of disputed factual issues, without first remanding for further findings, in areas where the Federal Circuit maintains that the district court had an erroneous view of the law. In so doing, the Federal Circuit has now announced that traditional equitable considerations will no longer apply to the equitable defense of inequitable conduct and that well-settled principles concerning the elements of fraud and negligence will not be followed in the Federal Circuit. This Court should issue appropriate instructions to the Federal Circuit that it rejoin the federal judiciary.

2.

INEQUITABLE CONDUCT IN PROCURING A PATENT WHICH FALLS SHORT OF ACTUAL FRAUD SHOULD NOT AUTOMATICALLY RESULT IN ALL CLAIMS OF A PATENT BEING UNENFORCEABLE WITHOUT REGARD TO ANY EXTENUATING EQUITABLE CONSIDERATIONS WHERE:

A. THE INEQUITABLE CONDUCT WAS THE NONDISCLOSURE OF TWO PATENTS WHICH (1) WERE IN THE EXAMINERS' FILES THROUGHOUT THE FIVE YEARS OF PROSECUTION OF THE SUBJECT PATENT, (2) WERE IN CLASSES AND SUBCLASSES THAT WERE REPEATEDLY SEARCHED DURING THE PROSECUTION OF THE SUBJECT PATENT, AND (3) WERE KNOWN TO THE PRIMARY AND ASSIGNED EXAMINERS AND WERE CITED BY THEM IN OTHER PATENT APPLICATIONS.

B. THERE WAS NO EVIDENCE THAT ANY EXAMINER WAS *AFFIRMATIVELY* MISLEAD, NOR

WAS THERE ANY EVIDENCE THAT THE EXAMINERS DID *NOT* KNOW THAT THE PERTINENT PRIOR ART WAS IN THE PTO FILES ACTUALLY SEARCHED DURING THE PROSECUTION OF THE SUBJECT PATENT.

C. NO CHARGE OR FINDING AS TO INEQUITABLE CONDUCT WAS MADE WITH RESPECT TO THE ONLY CLAIMS ASSERTED IN THE LITIGATION.

D. THE CONDUCT FELL SHORT OF ACTUAL FRAUD OR DELIBERATE MISREPRESENTATION.

The Federal Circuit has long been tantalized by the question of whether inequitable conduct toward the Patent Office renders a patent "unenforceable" or "invalid", only a semantic difference in many of the cases it decided.[11] In our case, however, the real importance of this issue is finally discussed by the Federal Circuit.

Inequitable conduct is a common defense in patent infringement suits these days—too common says Judge Rich[12] and others. But, the only permissible defenses to a patent infringement action are specified by 35 U.S.C. § 282[13] and it says

---

[11]"Whether the holding should be one of invalidity or unenforceability has had no practical significance in cases thus far presented to this Court and has therefore not been addressed." (*Id.* at 1560, A.-31a-31b.)

[12]"Far from the allegation that it 'smacks of outright fraud', we have rarely seen a less meritorious presentation of this much abused and too often last-resort allegation. It merits no further comment." Preemption Devices, Inc. v. Minnesota Mining and Manufacturing Co., 732 F.2d 903 at 908 (Fed. Cir. 1984)

[13]35 U.S.C. § 282 states:

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim

nothing about "inequitable conduct" as a defense. The allowable defenses under § 282 against liability fall into two general classes. The first arises out of conduct of the alleged infringer or the patent owner himself, including for example, the taking of a license by the alleged infringer or unenforceability in the hands of the patent holder. With respect to this group of defenses, the patent remains presumably valid so that it may be successfully asserted on another occasion at a later time. The second class is that the patent or any claim thereof is invalid because it fails to comply with certain requirements of the patent statutes, namely those of Part II and §§ 112 and 251. When this happens, the entire patent is bad, i.e. invalid. This is merely recognition of the common law rule that all provisions of a statute must be met to secure any right or privilege thereunder. The Federal Circuit observed that Part II and §§ 112 and 251 say nothing about "inequitable conduct," and thus cannot be grounds for invalidation of a patent. Consequently, as the Federal Circuit reasoned, the defense of inequitable conduct can only be allowed under the statutory provisions of the first class concerning "unenforceability." This is an equitable defense to liability created by court decision and, until this case, was administered in the Federal Judicial System according to well-established equitable principles.

The Federal Circuit also points to the common law rule that a patent is completely invalid if it is invalid in part[14] (*Id.* at

---

thereof shall rest on the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement or unenforceability,

(2) invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

* * *

[14] *Evans v. Eaton*, 20 U.S. 356 (1822).

1561-1562; A. 35a), a truly "all or nothing" rule. Yet after painstakingly establishing the equitable basis for the inequitable conduct defense (*Id.* at 1559-1561, A. 34a), the Federal Circuit inexplicably tacks onto it the "all or nothing" rule, which is by its terms obnoxious to any equitable doctrine.[15] In doing so, the Federal Circuit explicitly rejected a well-reasoned third circuit opinion, *In re Multidistrict Litigation Involving Frost Patent*, 540 F.2d 601, 611 (3rd Cir. 1976) ("*Frost*"). The *Frost* court correctly found that equitable considerations must be applied in determining whether all claims are unenforceable because of inequitable conduct with respect to some, and aptly acknowledged that, because this defense is founded on equitable notions, the courts "possess the equitable discretion to choose whether to deny enforcement to the . . . patent in part or in whole." *Id.* at 611; *accord*, *Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970) (courts generally apply equitable principles in evaluating charges of unenforceability due to fraudulent procurement), *Pfizer & Co. v. F.T.C.*, 401 F.2d 574 (6th Cir. 1968), (fraudulently procured patent allowed limited enforceability).

The Federal Circuit relied on *Norton v. Curtiss* as authority in holding all of the claims *automatically* unenforceable. If anything, *Norton* stands firmly for the proposition that equitable considerations *must* be considered where actual fraud is *not* involved.

---

[15]The Federal Circuit's reliance on 35 U.S.C. § 288 discussed in In re Clark (*Id.* at 1561; A. 34a) is misplaced. Section 288 concerns the effects of a finding of *statutory* invalidity—a legal defense—and provides relief from the common law "all or nothing" rule. As the Federal Circuit established, however, the legal defense of invalidity (failure to comply with specified statutory provisions) and the *equitable* defense of unenforceability are different. Thus, § 288 has no bearing on the application of the equitable defense; due to its origins, that defense must be applied consistently with established equitable principles. Under § 288, moreover, the phrase "deceptive intention" is not so broad as to include gross negligence or recklessness, which may suffice to satisfy the scienter requirement of a claim of inequitable conduct, but is limited—as the Federal Circuit recognized—to cases of true "fraud" or "deception."

Moreover, the *Norton* court went on to discuss the process by which the courts should evaluate misconduct after the patent issues, stating at 793:

> A court might still evaluate the evidence in light of the traditional elements of technical fraud, but will now include a broader range of conduct within each of those elements, *giving consideration to the equities involved in the particular case.*
>
> * * * * *
>
> In suits for patent infringement, unenforceability, as well as non-infringement or invalidity under the patent laws, is a statutory defense. See 35 U.S.C. § 282(1). We have noticed that unenforceability due to fraudulent procurement is a rather common defense. *In such circumstances, we find that the courts are generally applying equitable principles in evaluating the charges of misconduct alleged to be fraudulent.*

Lex Tex's '912 patent contains both method and product claims. The product claims are in independent form, i.e., they do not define the products in terms of the process used to make the product, and the product claims were held by the PTO to be patentably distinct from the method claims.

35 U.S.C. § 284, dating back to 1952, distinguishes between claims of a patent and the patent itself, and this distinction is carried over to Rule 56 (Supra, p.1) which specifies that the requisite materiality only exists when the undisclosed information is important to the decision of allowing the patent application to issue as a patent. But what when the undisclosed information is material to only some of the claims (or a category of claims, such as process claims) and the others of the claims can issue as a patent despite the undisclosed information? Then Rule 56 cannot defeat these other claims which can issue in a patent, absent deceptive intent! Even the Patent Office doesn't have an all or nothing rule, and In re Frost does nothing more nor less in a District Court context as the Patent Office does internally. If the Patent Office, during prosecution, learns of gross negligence on the part of an applicant—without decep-

tive intent—that affects only certain claims, the Patent Office still has discretion to issue the patent with other claims not affected by the gross negligence. In re Frost leaves a District Court with the same discretion when confronted by the same set of facts.

> *The Federal Circuit's wooden application of the "all or nothing" rule was critical to its disposition of this case and it is squarely in conflict with basic principles governing the equitable jurisdiction and powers of the federal courts.*

It has long been well-established that in equitable matters, "the nature of the violation determines the scope of the remedy." *Rizzo v. Goode*, 423 U.S. 362, 378 (1976), *quoting Swann v. Charlotte-Mecklenburg Board of Education*, 402 U.S. 1, 16 (1971). As the Eleventh Circuit—from within whose jurisdiction this case arose—has recently emphasized:

> Traditional equity principles are that the remedy should be no broader than necessary to right the wrong . . . . equity will not permit the application of a remedy that goes further than is necessary to right the alleged wrong, or protect the asserted right. . . . the relief [must be] limited to the harm done.

Liberty National Insurance Holding Co. v. Charter Co., 734 F.2d 545, 560 n.32 (11th Cir. 1984). This same general rule has often been acknowledged by other federal circuit courts. *See, e.g., Graves v. Romney*, 502 F.2d 1062, 1064-65 (8th Cir. 1974); *Wheeling Steel Corp. v. American Rolling Mill Co.*, 82 F.2d 97, 100 (6th Cir. 1936).

By embracing the "all or nothing" rule and summarily discarding the *Frost* decision as "not precedent in this court" (*Id.* at 1561 n.8; A. 34a), the Federal Circuit reached an egregious result which conflicts with these well-established rules governing the equitable jurisdiction of all federal courts. The Federal Circuit's holding also erroneously compels the conclusion as a matter of law that the product claims of Lex Tex's '912 patent are unenforceable, without regard to the clearly relevant equitable considerations that:

1. The unenforceability ruling is based on nondisclosure of two patents which were (a) in the Examiner's files throughout the five years the '912 was under examination, and (b) were in classes that were repeatedly searched during the '912 prosecution.[16]

2. The '912 was prosecuted during 1957-1963, long before the current version of 37 C.F.R. § 1.56.[17] As the First Circuit stated in *Digital Equipment Corp. v. Diamond*, 653 F.2d 701, 716 n.17 (1st Cir. 1981):

> We note, in this regard, that the current version of Rule 56, promulgated in 1977, seems to adopt a definition of materiality more expansive than that applied in "fraud" cases such as *Norton*. The rule states that:
>
> > All [inventors, assignees, attorneys, etc.] have a duty to disclose information they are aware of which is material when there is a *substantial likelihood that a reasonable examiner would consider it important* in de-

---

[16] It has been consistently held that there is a distinction between *concealment* of prior art known only to the applicant and the *non-disclosure* of art within the files of the PTO. *Hercules, Inc. v. Exxon Corp.*, 207 U.S.P.Q. 1088, 1144 (D. Del. 1980), for example, recognized, after reviewing numerous decisions, that the courts are "reluctant to find fraud in an attorney's failure to cite prior art references," and, at 207 U.S.P.Q. at 1114 n. 268, distinguished case involving the failure to disclose *perjury, articles, prior use* and *scientific data* from those involving prior art *known* to the PTO. *See also Admiral Corp. v. Zenith Radio Corp.*, 296 F.2d 708, 716 (10th Cir. 1961), which found it "[d]ifficult . . . to under[stand] how Zenith could conceal from the Patent Office the Andrews patent which was a public record." Likewise, the Federal Circuit's reliance on *Norton v. Curtiss, supra*, in this regard is misplaced. As that court stated in footnote 13 at 433 F.2d 794: "The situation is therefore not similar to that in which pertinent prior art is withheld when no facts are represented to the Patent Office. We express no opinion on that situation."

[17] *Argus Chemical Corporation v. Fibreglass-Evercoat Company, Inc.* (Appeal 84-1418 decision April 4, 1985), ____ F.2d ____ (Fed. Cir. 1985) makes clear the Federal Circuit's view that an *ex post facto* application of the Rule 56 standard will be followed in the Federal Circuit, even though a different and less stringent standard existed in its sister circuits.

> ciding whether to allow the application to issue as a patent.
>
> Such a "duty of disclosure" may well be desirable as a matter of regulatory policy; we do not suggest that it could not be applied prospectively in proper circumstances. It would obviously be improper, however, to judge the conduct of these applicants retroactively in terms of a "duty" created by a regulation promulgated years after the events at issue.

See *Union Carbide Corp. v. Filtrol Corp.*, 170 U.S.P.Q. 482, 515 (C.D. Cal. 1971), *aff'd*, 179 U.S.P.Q. 209 (9th Cir. 1973), where that court relied on expert testimony by former Patent Commissioner David L. Ladd to hold:

> Carbide also established that there was no internal Patent Office statement of policy or directive to the examining corps which stated or suggested that an applicant or his attorney was guilty of inequitable or improper conduct for not citing art which did not anticipate. Mr. Ladd traced the history of Patent Office and legislative proposals, beginning in 1963, to broaden the duty of candor to include an obligation relative to the citation of non-anticipatory art. There has never been any rule or statute which has changed the obligation relative to the citation of non-anticipatory art.

3. The evidence is overwhelming that the public benefited from the products described by the claims in suit, which are the basis for the widely used polyester suit and dress fabrics, and the so-called polyester double knits. The popularity of these fabrics was waning during the limited accounting period allowed Lex Tex (May 31, 1977-June, 1980) yet the damages from the *three* appellants alone covered more than 250,000,000 pounds of yarn, enough for 125,000,000 dresses at an average weight of 2 pounds per dress, one for every female in the United States. The public obviously found the product satisfied a substantial need, and the invention has met with tremendous commercial success.

4. Both the district court and the PTO in the reissue proceeding agreed that the '912 invention "differed markedly" from the

inventions described by the references said to have been withheld. *Of course, the asserted product claims were not even challenged as being improperly issued.*

5. There was no evidence that any Examiner was *affirmatively* mislead, nor was there any evidence that the Examiners did *not* know that the pertinent prior art was in the PTO files actually searched during the prosecution of the subject patent.

In accordance with the settled rule of equity jurisprudence that the remedy must not exceed the scope of the wrong, the proper disposition of this issue requires the type of equitable balancing, including consideration of these factors, recognized in *Frost supra.* That balancing, moreover, should be considered in the first instance by the district court which heard all the evidence and is familiar with the full facts of the case. Thus, at the very least, rehearing and remand to the district court—which, because it found no inequitable conduct, has never considered this question—is necessary.

If the Federal Circuit's ruling stands, the more than $8,000,000 relief granted to willful infringers goes far beyond the wrong found to have been committed by Lex Tex's predecessors.[18]

The Federal Circuit's New Concept of Inequitable Conduct

The Federal Circuit's opinion recognizes that conduct short of fraud can render a patent unenforceable. If, as here, actual fraud is not involved, then that conduct must constitute gross negligence. Of course, in order for there to be a legal conclusion of fraud or gross negligence, each of the elements of those torts must be met, including the element of causation. The Federal Circuit has now stated that if an applicant breaches his *duty* to disclose *material* prior art the result is that all claims of the patent are then unenforceable. *Furthermore, this result fol-*

---

[18] *Compare* the maximum monetary sanction for violating the antitrust laws—$1,000,000. 15 U.S.C. § 1. (Prior to 1974, even that sanction was but $50,000). Unfortunately, the Federal Circuit did not even consider the equitable principle of *remittitur*, which could be properly considered by the district court on remand.

lows automatically without any consideration of the other elements of the tort. Ironically, the Federal Circuit correctly noted that knowledge by the original examiner of the uncited references would preclude a finding of an (sic—should be) inequitable conduct (*Id.* at 1563; A. 38a). Unfortunately, their reasoning was flawed as this conclusion was reached on the basis that knowledge by the examiner of the references would preclude a finding of *materiality*, and, necessarily, inequitable conduct. Of course, the *materiality* of a reference does not depend on whether or not an examiner is aware of it. Regardless of the materiality of a reference, if the examiner knew of it and didn't cite it, the failure of the applicant to tell him of it can't be the *legal cause* of his failure to cite it. By requiring Lex Tex to have proved non-materiality by showing actual knowledge by the Examiner, the Federal Circuit shifted the burden of proof on the issue of causation and destroyed Lex Tex's patent rights without affording it a remand to meet this new burden. Indeed, the Federal Circuit's analysis of Lex Tex's conduct removes causation as an element.

Assuming *arguendo* that Rule 56 of the PTO accurately describes the duty of a patent applicant prior to 1963 (the subject patent issued in 1963), unless the breach of that duty affirmatively misled the Examiner, it should not result in all claims of a patent being found unenforceable. The Federal Circuit acknowledged the proofs and findings below which make it clear that the subject prior art was known to the PTO long before the patent issued. (*Id.* at 1563-64; A. 38a) Indeed, the examiners involved with the '912 application knew of this other prior art. Thus, whatever the duty of disclosure might have been, in this case the *breach* of that duty did not *cause* the patent to issue.

The Federal Circuit then considered the trial court's finding that it was possible that the examiner knew of the references,[19]

[19]Chief Judge C. Clyde Atkins' finding of fact 16: "It is possible that the Primary Examiner in the original '912 application knew of the Weiss patent as he was previously also the Primary Examiner in Charge of the U.S. Weiss application, and conducted six prior art searches in connection with the prosecution of the '912 patent, the classes of which included the Weiss

but took issue with the way in which the trial court expressed its finding. In the Federal Circuit's words, "where inequitable conduct is at issue, mere possibilities are insufficient." (*Id.* at 1564; A. 39a). Thus, due to what it perceived to be a semantic insufficiency in the trial court's finding, the Federal Circuit rejected the undisputed evidence which both supports the finding and compels the conclusion that no inequitable conduct occurred.

The Federal Circuit's treatment of this dispositive issue is seriously flawed. By so ruling, the Federal Circuit improperly penalized Lex Tex for the imprecision of the trial court's finding and for the absence of a more specific "finding," in a form satisfactory to the Federal Circuit, on this factual issue. More importantly, however, the Federal Circuit implicitly placed on Lex Tex the affirmative burden of showing—of proving—actual knowledge by the examiner of the references. The imposition of such a burden on the patentee is inconsistent with the Federal Circuit's recent decisions regarding this precise issue, *Richdel Inc. v. Sunspool Corp.*, 714 F.2d 1573, 1579 (Fed. Cir. 1983); *cf. Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437 (Fed. Cir. 1984), and several of its decisions addressing the burden of proof generally with respect to invalidity or unenforceability defenses. *E.g., American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1360 (Fed. Cir. 1984), *cert. denied*, 105 S.Ct. 95 (1984).

As stated in *Norton vs. Curtis* "We must emphasize that while we have recognized the requirement that the provisions of Rule 56 be interpreted more broadly in this area of inequitable conduct the burden of proof has not changed. *** Thus the one asserting misconduct has a heavy burden of persuation. 433 F.2d at 797

As the Federal Circuit made clear in *Richdel*, it is error for a trial court to require a patentee to prove that prior art relied on

---

patent". (A.-5a) Finding of Fact 24 "Da Gasso discloses an apparatus for processing torque stretch yarn. It is possible that the primary examiner of the '912 application knew of Da Gasso as he was also the primary examiner of co-pending application ('724) of the inventors of the '912 against which Da Gasso was unsuccessfully cited."

by an attacker had been considered by the PTO. (714 F.2d at 1579) Rather, as that opinion emphasized, the burden is on the attacker to show that prior art had not been considered, particularly where the prior art was in the classes and subclasses repeatedly searched. Consistent with these principles, the Federal Circuit, if it had any question regarding the sufficiency of the trial court's finding, could either remand the case for a more specific finding or find that the examiner likely did know of both references.

The Federal Circuit's failure to properly address this issue continued with its further citation of and reliance on *Driscoll v. Cebalo*, 731 F.2d 878. (Fed. Cir. 1984), *decided long after judgments were entered below*, for the proposition that "[i]t *cannot* be presumed . . . that the PTO considered the prior art of particular relevance if it was not cited." (*Id.* at 1564; A. 39a). The court's reliance on this case is misplead. If Lex Tex *did not* have the burden (and it should not) of proving that the examiner had knowledge of the uncited prior art, it did not need to rely on a *presumption* that the reference was discarded by the examiner as irrelevant. If as stated in *Norton vs. Curtis*, the burden of proof has not changed, then, that burden was on the party asserting misconduct to prove that the reference was not considered. Thus, this holding is not only in conflict of prior, well-reasoned opinions of other circuit courts, it also represented the application in this case of a principle of law different from that which was correctly viewed as controlling by the district court at the time that the case was tried. *Bluntly put—in a case of first impression the Federal Circuit reversed on precedent established after Lex Tex's trial below, and refused to remand.*

Prior to the Federal Circuit's decision here and earlier decision in *Driscoll v. Cebalo*, the law appeared to be well-settled that it would be *presumed* that the examiner, in conducting his prior art searches, considered references classified in the fields searched, regardless of whether the examiner cited the references. The leading decision in this area was authored by Chief Judge Markey of the Federal Circuit, sitting by designation on the Eight Circuit in 1980. *E.I. duPont de Nemours & Co. v.*

Berkley & Co., 620 F.2d 1247 (8th Cir. 1980).[20] Although the decision in the instant case was *also* authored by Chief Judge Markey, for some inexplicable reason the *duPont v. Berkley* decision was never mentioned even though it is precedent for an opposite result. This presumption—like the *Richdel* holding noted above—is also fully consistent with the well-settled rule that the burden is on the attacker to prove each element of any validity defense. It therefore was properly embraced by the trial judge below.

With its *Driscoll* decision and the Federal Circuit's ruling herein, however, the Court has enunciated a new principle: that this presumption, for some unexplained reason and without any consideration of Judge Markey's well-reasoned decision does not apply "where fraud or other egregious conduct is alleged." (*Id.* at 1564, *quoting Driscoll*, 731 F.2d at 885). Of course, even if no presumptious whatsoever existed on this point, the throwsters still had the burden of proof to establish that the Examiners did *not* know of the prior art. Because of this change with respect of this critical issue, coupled with the new burden of proof placed on Lex Tex by the Federal Circuit, Lex Tex has been deprived of the opportunity to present the evidence which the court has now ruled it must present in order to prevail. In accordance with well-settled principles of appellate procedure, this case must be remanded to the district court to give Lex Tex that opportunity.

Without question, Lex Tex can meet this burden, if it must, in a simple and unrebuttable fashion: By reference to other

---

[20]Accord, *Wolens v. F. W. Woolworth Co.*, 703 F.2d 983, 992-93 (7th Cir. 1983); *Clairol, Inc. v. Save-Way Industries, Inc.* 210 U.S.P.Q. 459, 467 (S.D. Fla. 1980); *Farmhand, Inc. v. Lahman Mfg. Co., Inc..*, 192 U.S.P.Q. 749, 762 (D. S.D. 1976) aff'd, 568 F.2d 112 (8th Cir.); *cert. denied*, 436 U.S. 913, 197; 98 S.Ct. 2254 (1978); *Union Carbide Corp. v. Filtrol Corp.*, 170 U.S.P.Q. 482, 516 (C.D. Cal. 1971), *aff'd*, 179 U.S.P.Q. 209 (9th Cir. 1973); *Plantronics, Inc. v. Roanwell Corp.*, 403 F.Supp. 138, 150 (S.D.N.Y. 1975), *aff'd*, 535 F.2d 1397 (2d Cir.), *cert. denied*, 429 U.S. 1004, 97 S.Ct. 538 (1976); *Becton, Dickinson & Co. v. Sherwood Medical Industries*, 516 F.2d 514, 524 n.30 (5th Cir. 1975); *Reinke Mgf. Co., Inc.v. Sidney Mfg. Corp.*, 446 F. Supp. 1056 (D. Neb. 1978) *aff'd*, 594 F.2d 644 (8th Cir. 1979); *Bordon, Inc. v. Occidental Petroleum Corp.*, 381 F. Supp. 1178 (S.D. Tex. 1974).

patents prosecuted in the same time period in which the same examiners cited the very same references which the Federal Circuit assumed were unknown to them. In the Appendix at Page 51a is a table of six United States Letters Patent. The first two are the Lex Tex patents. The remaining four are unrelated to Lex Tex. The dates of prosecution all overlap. The primary and assistant examiners are largely the *same*. The two references (Weiss and Da Gasso) alternatively are cited in each. These other patents establish a simple fact: The *same* examiners knew about the *same* references during the *same* time period. The Federal Circuit assumed otherwise and that erroneous assumption was central to its opinion in the present case.

CONCLUSION

Prior to the decision in this case, the law was clear that the one asserting misconduct carries a heavy burden of persuasion. *Norton vs. Curtis*, 433 F.2d 779, 797 (1970) Moreover, and more importantly, the court there stated "while we must emphasize that while we have recognized the requirement that the provisions of Rule 56 be interpreted more broadly in this area of inequitable conduct, the rule as to burden of proof *has not changed*". 433 F.2d 797.

The case at bar is one of those cases involving allegations of failure to cite important prior art, which is said to constitute "inequitable conduct" so as to render the claims unenforceable. The case, although not unique, presents somewhat different considerations since the so-called "uncited prior art" can be shown to be in the records searched by the original examiner. In such a situation, in the absence of a change in the law as to who has the burden of proof, the party asserting the alleged misconduct must show that the "original" examiner had no knowledge of this prior art which at the very least must be conceded as being a matter of public record and surely imputed to the Patent & Trademark Office. Again, prior to this case no less an authority than Judge Markey wrote an appellate opinion holding that the examiner who searched such records is presumed to know what is in the records. *E.I. duPont v.*

Berkley & Co., 620 F.2d 1247 (8th Cir. 1980) In light of this background it seems abundantly clear that a party who asserts "inequitable conduct" in failing to cite pertinent prior art would have the burden of proving as a matter of fact that the examiner in question had no knowledge of pertinent art that was a matter of public record and which as an examiner he is presumed to know. Petitioner concedes that in light of the court's ruling in *Driscoll v. Cebalo Co.*, 731 F.2d 878 (Fed. Cir. 1984) that the mere fact that an examiner searched an art class containing certain reference does not lead as a matter of law to the presumption that *the reference was discarded by the examiner as irrelevant*. However, such a presumption is not necessary for a patentee to prevail on the issue. Rather, the burden of proof stays with the party asserting misconduct to make out at least a prima facie case that the original examiner did not have actual knowledge of this art which he is presumed to know about. In the absence of some evidence that the examiner *did not* know of this public information the defense must fail. From an *equitable* point of view, this is a proper result. Material or prior art that is not only public information but is actually in the Patent Office records is *not* the type of information that gives rise to the need for a "duty of candor". As stated in *Norton v. Curtis*, the highest standards of honesty and candor on the part of applicants in presenting such facts are thus necessary elements in a working patent situation. However, the court here was making reference to situations where the Patent & Trademark Office had to *rely* on applicants for certain facts upon which its decisions are based. Information such as a prior art reference already *known* to the Patent & Trademark Office and in its records is not the type of fact known only to the applicant and upon which the Patent & Trademark Office must *rely* on applicant to disclose. Such facts do not require testing, analysis or investigation.

That the Federal Circuit in the present case shifted the burden of proof to Lex Tex is without question. We quote at length from the opinion beginning at page 20 which states: "The district court also noted the possibilities that the primary examiner of the '912 patent: (1) knew of Weiss because he was also the primary examiner of the United States counterpart to

Weiss and conducted prior art searches in classes that included Weiss; and (2) knew of DeGasso because he was also the primary examiner of the '724 application, in which DeGasso was cited. If the primary examiner actually knew about the Weiss and DeGasso references when examing the '912 application, that knowledge might preclude a finding of materiality. . . . However, the district court did not *find* actual knowledge by the primary examiner—it merely noted *possibilities* and, where *inequitable* conduct is at issue, mere possibilities are insufficient . . . There is no evidence, and Lex Tex does not argue on appeal, that the primary examiner actually recalled the critical aspects of the U.S. Weiss or DeGasso patents. Nor is there evidence that the examiner principally responsible for examining the application, as opposed to the primary examiner, had knowledge of the references" and in footnote 10: "Nor did appellee show that the examiner primarily responsible for examining '912 was primarily responsible for examining the U.S. Weiss and '724 applications. . . . the examiner of the application had been the examiner of the reference.

The Federal Circuit admits that "knowledge" might preclude a finding of materiality. The court goes on to state "the district court did not find actual knowledge by the primary examiner, it merely noted possibilities and where inequitable conduct is at issue mere possibilities are insufficient".

This bit of rhetoric sounds compelling, however; it evidences either a total lack of understanding of the law or a dramatic departure from the existing law. In either case, it is enough to warrant a remand. As stated in *Norton*, the burden of proving this defense resides with the party asserting it. It was not Lex Tex's burden to establish even the possibility that the examiner knew of uncited art—Lex Tex did not even have to prove that much in order to prevail. The burden is on the party asserting the defense to establish the pertinent prior art was not known to the examiner. Since in our case the District court found it was a possibility, there is not even reason for a remand since the record establishes that the moving party did not carry its heavy burden.

The "Reissue" Problem

Despite the view of other Circuit Courts holding the results of reissue proceedings meaningless, In re Dien, 680 F.2d 151 (CCPA 1982) *Bally Mfg Corp. v. Diamond,* 629 F.2d 955 (4th Cir. 1980), the CAFC uses such findings to overcome the deficiency in the throwsters' proofs which is clearly erroneous. The throwsters had the burden or proving that the method claims (not in issue) would not have been issued had the primary examiner *known* of the so-called uncited prior art *and that as a matter of fact he did not know of the reference.*

This is so since the examiner is presumed to have known of this prior art and Lex Tex had the right to rely on that presumption (*DuPont v. Berkley, supra*) Accordingly, in order for the throwsters to discharge this burden, they had to make out at least a prima facie case as to the *actual* knowledge of the original examiner with respect to this art presumed to be known in 1963. This the throwsters failed to do. Admittedly in a situation where relevant prior art is alleged to have been withheld and there is no basis for *presuming* it was known to the original examiner, the party asserting the defense can discharge its burden by showing what action a "reasonable examiner" would have taken with respect to the allowance of the claims in view of the previously uncited prior art. This however is not our case. Such a showing where the examiner is presumed to "know" of the art is inappropriate. Nothing short of a showing of the *actual* knowledge of the original examiner at the time will discharge the burden. As stated above, the Federal Circuit attempts to substitute the findings of the "reissue" proceedings. *THIS IS NOT THE TEST.* The burden of the infringers was to show that as a matter of fact the original examiner did not have *actual* knowledge of the uncited prior art. Only after that fact was established could the question

as to whether a "reasonable examiner" would allow the claims be addressed. This is a case where what the situation was in 1963 must be *proven*. This is simply not a situation where what a reasonable examiner would do under the circumstances is enough . . . What the *actual* examiner did (and knew) is what must be proven in order to prevail.

Inequitable Conduct—The Standard

The question of the appropriate standard for determining inequitable conduct in procuring a patent is one of law. *Argus Chemical Corp. v. Fiber Glass Overcoat Co., Inc.* ____ F.2d ____ (Fed. Cir., 1985) The more important question is what is the standard?

In order to properly address this question, we would like to quote extensively from *Norton v. Curtis, supra.* Beginning at page 792, the Court states:

> We note first that traditionally, the concept of "fraud" has most often been used by the courts, in general, to refer to a type of conduct so reprehensible that it could alone form the basis of an actionable wrong (e.g., the common law action for deceit). That narrow range of conduct, now frequently referred to as "technical" or "affirmative" fraud, is looked upon by the law as quite serious. Because severe penalties are usually meted out to the party found guilty of such conduct, technical fraud is generally held *not* to exist unless the following indispensable elements are found to be present: (1) a representation of a material fact, (2) the falsity of that representation, (3) the intent to deceive or, at least, a state of mind so reckless as to the consequences that it is held to be the equivalent of intent (scienter), (4) a justifiable reliance upon the misrepresentation by the party deceived which induces him to act thereon, and (5) injury to the party deceived as a result of his reliance on the misrepresentation. See, e.g., W. Prosser, Law of Torts. §§ 100-05 (3d ed. 1964); 37 C.J.S. Fraud § 3 (1943).

Then, at page 794, the Court states:

> We have found it helpful to approach the law to be applied here on an analytical basis, considering seriatim each one of the elements of "technical" fraud, as we listed them earlier, and determining in what manner it has been affected by the broadening of the concept of 'fraud' before the Patent Office. We will then evaluate Norton's charges in light of that determination.

Clearly the court had in mind that the defense of fraud "should be broadened". It appears what the court intended was to set up a standard whereby each element of common law fraud would be viewed and assessed in light of any relevant equitable considerations that would bring about an equitable result even though a particular technical requirement might not be met. If this is so, then the party that is asserting the defense should first present facts such as would comply with the legal or technical requirements and then broaden the scope of the defense by proof of equitable considerations such as would be essential to justify the imposition of a severe penalty. Of course, the burden of proof remained upon the party asserting the misconduct to prove *facts* that would justify holding a patent unenforceable.

Since *Norton vs. Curtis* was decided, the basic elements of "materiality" and "intent" have been significantly broadened. However, the case sub-judice goes far beyond anything considered to date since it deals with the situation in which pertinent prior art was withheld when no facts are represented to the Patent & Trademark Office. About this *Norton vs. Curtis* expressed no opinion. (Footnote 13 at 433 F.2d 794)

Norton vs. Curtis applied a standard whereby each element of "fraud" was analyzed seriatim and a determination made as to the manner each element was affected by the broadening of the condept. *Norton v. Curtis*, 433 F.2d at 794. However, the court there never suggested that any of the basic elements of "fraud" would be completely ignored. The Federal Circuit in our case states "Once the thresholds of materiality and intent are established, the court must balance them and determine as a matter of law whether the scales tilt to a conclusion that inequitable conduct occurred. If the Court reaches that con-

clusion, it must hold that the patent claims at issue are unenforceable". If we accept this statement at face value and focus on the expression "thresholds" one can only conclude that the court here intended to relieve the party asserting the defense from the additional burden of establishing "causation" or "reliance and injury". This conclusion is strengthened by the fact that the court as indicated above shifted the burden to Lex Tex to prove these elements. The court indicated that it would be Lex Tex's burden to prove that the examiner had "actual" knowledge of the reference. This would impose the burden on the applicant to prove that he was not the cause of the claim being allowed by the Examiner without consideration by the Examiner of the uncited prior art. If the law is now that the burden of proof shifts to the patentee once the "thresholds" of materiality and intent are established, this is the first case even to enunciate such a rule. It certainly was not the law at the time this case was tried in the District Court. Anything short of permitting Les Tex the opportunity on remind of presenting evidence and establishing that the examiner did, in fact, have knowledge of the "uncited art" would be a travesty. Petitioner contends, however, that this decision if it has the effect of shifting burden of proof should be reversed. To place or shift the burden of establishing reliance, causation or injury to the party being accused, is contrary to the traditional concepts of law or equity. Surely this is a dramatic departure from the law as enunciated in *Norton vs. Curtis*, which was the basis upon which the case was tried in the District Court. Can it be as the Federal Circuit has stated that *only materiality and intent* need be established without regard to the remaining essential elements such as "reliance and injury" . . . Reliance and injury are the two remaining elements to be considered. *Norton v. Curtis*, 433 F.2d 796. The burden of proof was on the infringer to prove "reliance" and "injury". Although petitioner concedes these elements may be broadened by equitable considerations, the fact remains they are "elements" to be established and proven. The Federal Circuit cannot, at this late stage, ignore these essential elements of the standard needed to establish "inequitable conduct" as a matter of law.

Until the instant case there was no authority to support the proposition that in the absence of a "misrepresentation" a patentee could be denied the benefit of his patent for having failed to bring relevant art to the attention of the Patent Office. The Federal Circuit by applying a rule adopted in 1977 imposes upon the patentee in our case a duty to "disclose prior art" albeit "known prior art". Having created this duty, the Court then concludes that the failure to do so is tantamount to or the equivalent of conduct akin to the false representation of a material fact with the intent to deceive. It then goes on to establish "materiality and intent". The pivotal question, however remains—can it then ignore "reliance and injury"? The answer is positively not. These are essential elements to be met even if broadened by equitable considerations. *Causation* must always be an issue in a case that results in taking of valuable rights.

As stated in *Norton v. Curtis*, the element required at common law was: a justificable reliance upon the misrepresentation by the party deceived which induces him to act thereon. Assuming *arguendo* that failure to bring information to the office is akin to a misrepresentation can it be (or has it been) established that the examiner was deceived and induced to act. It could be shown that the examiner was deceived if it could be shown that he had no knowledge of the prior art. This, of course, is the burden of the party asserting the misconduct and there is no evidence in this record that the examiner was *deceived* and induced to act.

Respectfully Submitted

JAMES W. CRABTREE
SMATHERS & THOMPSON
2170 Charlotte Plaza
Charlotte, N.C. 28244

ROBERT C. MILLER
OBLON, FISHER, SPIVAK,
MCCLELLAND & MAIER, P.C.
1755 S. Jeff Davis Hwy.
Arlington, Va. 22202

APPENDIX

APPENDIX A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

MDL DOCKET 82

In Re Yarn Processing
Patent Validity Litigation

FINDINGS OF FACT
AND CONCLUSIONS OF LAW FOR PHASE II

During the period from June 29 through July, 10, 1982, Phase 1II of MDL 82 was tried to the Court. Phase II included the equitable defenses of unenforceability, laches and estoppel. The Court announced its decision prior to the trial of Phase III which began on December 1, 1982. The Court having considered the evidence and argument presented at the Phase II trial, the parties' supporting memoranda and proposed findings of fact and conclusions of law, and being otherwise duly advised, hereby makes the following findings of fact and conclusions of law on the equitable defenses.

FINDINGS OF FACT
UNENFORCEABILITY

1. Plaintiff, Lex Tex Ltd. Inc. (Lex Tex), is a Florida corporation with its principal place of business in this judicial district. Lex Tex is the owner, by assignment, of U.S. Letters Patent 3,091,912 ('912). The '912 is directed to methods of continuously producing textured synthetic yarn, such as nylon or polyester, as well as certain yarns produced by such methods. The apparatus usually employed to make such yarn is commonly referred to as a "double-heater" machine, and the yarns produced on such machines are now usually referred to as "set" yarns.

2. The defendants include Burlington Industries, Inc., J.P. Stevens, Inc , Avtex Fibers, Inc., Unifi, Inc., Dow Badische, Inc. and Monsanto Corporation. These defendants are known as "Throwsters." Throwsters are manufacturing concerns which perform the manufacturing steps which convert synthetic yarn from one form to another.

3. Lex Tex sued the Throwsters for infringement of its '912 patent, but the only claims asserted in this litigation are some of those directed to the yarn itself, i.e., 24, 26, 27 and 31.

4. Presently before the Court for consideration is the equitable defense, raised by each Throwster, that the '912 patent is unenforceable by Lex Tex by reason of inequitable conduct and fraud on the part of Lex Tex's predecessors in interest during the prosecution of the application for the '912 patent. Additionally, Burlington, J.P. Stevens and Avtex Fibers have asserted the equitable defenses of laches and estoppel.

5. The application for U.S. Patent 3,091,912 was filed in the United States Patent and Trademark Office (PTO) on April 19, 1957 and was assigned Serial No. 653,953 (the "'912 application"). The '912 application was filed in the names of Warren A. Seem and Nicholas J. Stoddard, as joint inventors. Universal Winding Company (now, by change of name, Leesona Corporation) was the owner of the application and of the subject matter disclosed and claimed therein. The '912 application was pending in the U.S. Patent Office from April 19, 1957 to June 4, 1963.

6. Following the Fifth Circuit Court of Appeals' decision, *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127 (5th Cir. 1975), *cert. denied*, 433 U.S. 910 (1977), which held that Lex Tex had misused its patents, Lex Tex commenced infringement actions outside this judicial district against various Throwsters, alleging infringement of Lex Tex's Patent 3,091,912 ('912).

Those actions were subsequently transferred to this forum pursuant to 28 U.S.C. § 1407 as "tag-a-long" cases. Following

the initial consolidated proceedings and a partial summary judgment on liability issues, a number of the Throwsters filed declaratory judgment actions in this district, limited to the issue of purge of misuse, which were then consolidated for trial of that issue.

A separate trial limited to the issue of purge was held before this Court during March and April, 1979. A Memorandum Opinion was filed on June 12, 1979, ruling that Lex Tex had purged the misuse previously adjudicated by the Fifth Circuit Court of Appeals, but had not done so until May 31, 1977.

Following entry of this Court's June 12, 1979 Memorandum Opinion, Lex Tex amended its pleadings for the purpose of filing counterclaims in each of the declaratory judgment actions by the Throwsters. In its counterclaim, Lex Tex asserted infringement of the '912 patent.

7. In an Order on reissue motions dated September 7, 1979, this Court granted the motion of the Throwsters to compel Lex Tex to file an application in the PTO for reissue of the '912 patent. The Court sought to have an expert evaluation of certain patents which the Throwsters contended were more material than the prior art considered by the PTO in its examination of the original '912 application. The Throwsters were permitted to participate in the expedited reissue proceedings.

8. As a consequence of the PTO reissue proceedings, the PTO concluded that the invention of the '912, as specified in Claims 2, 9, 10,.11, 12, 13, 14, 16, 24, 25, 26, 27, 28, and 31 (hereinafter called the "verified" claims) was neither obvious within the meaning of 35 U.S.C. § 103, nor anticipated within the meaning of 35 U.S.C. § 102, in view of any of the prior art cited by the Throwsters and considered by the PTO in the reissue proceeding.

9. In the reissue, the PTO repeatedly distinguished the disclosures of the invention of the '912 from those of Weiss and Da Gasso, finding that the disclosure of the '912 differed markedly from that of Weiss and Da Gasso:

> It is of course true and the Examiner has so acknowledged that Applicant's disclosure differs markedly from the references. (See paragraph 33 of the PTO Official Action dated 4/10/80, Court Exhibit 2).
>
> Insofar as the three primary references ('983 Belgian; '802 British; and '481 Italian) are concerned, the Examiner is in basic agreement with Applicant with regard to what they teach; what their limitations are; and how, they differ from Applicant's more detailed disclosure. . . . That is, regardless of the fact that there are substantial differences between the references and Applicant's disclosure, . . . (See paragraph 7 of the PTO Official Action dated 4/10/80, Court Exhibit 2).

10. The consistent claim construction urged in the original application and in the reissue application makes it clear that the original applicants and then Lex Tex believed that the inventions of Weiss and DaGasso were materially different from the '912. (T. 5507-5510). The Weiss and Da Gasso references are markedly different from the disclosure of the '912. This difference indicates that the inventions involved are significantly different and the claim language that the patentees have been consistently relying on to distinguish their invention over Weiss and Da Gasso has some genuine technological base.

11. The Weiss patent discloses a discontinuous autoclave method of batch processing a stretch yarn which itself has been produced by an autoclave batch process. (T. 5397).

12. Weiss does not disclose nor claim a continuous process by which it is possible to control the correlation of tension and heat. (T. 5397-98).

13. Weiss does not disclose a process capable of producing a uniform yarn as claimed by the application in the claims in litigation. (T. 3843-44). A batch process reference (U.S. 2,564,245 Billion) such as Weiss was considered by the PTO in the examination of the original application. ('912 File wrapper, page 58). This reference was overcome by the applicant's con-

tention that a batch process was incapable of producing a uniform yarn of the kind claimed by applicant (File wrapper '912, page 60). Weiss is therefore less relevant than Billion because Weiss requires *two* batch processes.

14. Sharply divided testimony was given as to the materiality of Weiss. At best, there is a division among the experts as to whether, from a technological point of view, Weiss is as relevant or more relevant than the art before the PTO in connection with the original application. (T. 5397). There is, however, no clear and convincing evidence that the applicants or their attorney, believing Weiss to be relevant, intentionally withheld it from the PTO or that they acted with recklessness or gross negligence. While the evidence as to the materiality of Weiss is in conflict, it does represent an honest difference of opinion of reasonable men expert in the art.

15. During the pendency of the application for the ,912 patent, the applicants and their attorneys did not cite or call the attention of the Patent Examiner to Weiss British Patent 710,802, or to any counterpart thereof, including Weiss U.S. Patent 2,766,505. During the pendency of the application for the '912 patent the Patent Examiner did not cite the Weiss patent.

16. It is possible that the Primary Examiner in the original '912 application knew of the Weiss patent as he was previously also the Primary Examiner in charge of the U.S. Weiss Application, and conducted six prior art searches in connection with the prosecution of the '912 patent, the classes of which included the Weiss patent. (T. 5524-25).

17. During the pendency of the application for the '912 patent, the patent applicants and Leesona, including Leesona's in-house patent counsel, Albert P. Davis, became aware of the existence of the Weiss British Patent 710,802. (DX 1870) (Memorandum from Richardson to Davis). There is, however, no clear and convincing evidence that the applicants or their attorney intentionally withheld Weiss from the PTO or that they

acted with recklessness or gross negligence in failing to disclose Weiss.

18. The law firm of Howson & Howson, Philadelphia, Pennsylvania, was responsible for prosecuting the application No. 653,953 (the "'912 application") before the PTO during the entire period that the application was pending.

19. During the pendency of the '912 application, Howson & Howson filed, on behalf of the applicants, Stoddard and Seem, a number of foreign counterpart applications.

20. Of the counterpart applications which were made as to the '912, some evidence was presented as to the Japanese, German and British applications. While the Japanese and German applications were rejected over the Weiss patent, the British '912 counterpart was allowed over the British Weiss patent. There is no clear or convincing evidence that the failure to advise the PTO of the German and Japanese applications evinced any deceptive intent on behalf of the applicants or their attorneys. There also is no clear and convincing evidence that the applicants or their attorneys acted with gross negligence or recklessness in failing to advise the PTO of the foreign applications and the rejection of the Japanese and German '912 counterparts over Weiss. While the applicants were aware of the .Weiss patent, there was no recognition on their part of its materiality or relevance because of the differences in the patent laws of these foreign countries as to disclosure, claims practice, forms of applications and standards of patentability.

21. In March of 1957, Leesona introduced to the throwing industry the Model #511 attachment (511 attachment) for reprocessing of torque stretch yarn. Heberl.ein, the owner of the Weiss patent, threatened legal action against the sale of Leesona's 511 machine. (T. 4965) On July 1, 1957, Universal Winding Company entered into an agreement with Heberlein & Co. regarding the 511 attachment. The agreement included a license to Universal Winding Company under certain of the Weiss patents which were counterparts of British Patent No. 710,802. Heberlein released Universal and the purchasers and

users of Universal's Type 511 reprocessing attachment from all liability for infringement or contributory infringement of the Heberlein Re-processing Patent Rights insofar as the 511 attachment is used for the thermal re-processing of stretch yarn which has been produced under license from Heberlein.

22. Universal Winding's (and later Leesona's) concern with obtaining licenses under Weiss in Europe supports an inference that this was an economic decision based upon a desire to avoid costly litigation over the Weiss patent since it might be considered a dominating patent under the patent laws in Europe. According to the patent experts of both parties, the fact that Weiss might be dominating does not establish that Weiss is relevant to the patentability of the '912 in the United States.

23. The totality of the circumstances surrounding the applicants' involvement with the Weiss patent makes it clear that the applicants had knowledge of the Weiss patent. There is evidence, however, that the applicants believed the '912 patent to be different enough from the Weiss patent so that they had no duty to disclose Weiss to the PTO. The circumstances indicate that the applicants made a "business judgment" not to disclose the Weiss. While this may not have been the best decision, there is no evidence that the applicants acted with recklessness or gross negligence in making such a decision.

24. Da Gasso discloses an apparatus for processing torque stretch yarn. It is possible that the primary examiner of the '912 application knew of Da Gasso as he was also the primary examiner of a co-pending application ('724) of the inventors of the '912 against which Da Gasso was unsuccessfully cited.

25. The technological evidence with respect to Da Gasso was not as sharply divided as that involving Weiss. Both the Throwsters' technical expert, Dr. Stanley Backer, and Lex Tex's expert, Dr. Chester Dudzik, agreed that Da Gasso fails to claim or disclose a means or method of controlling tension across the second heating zone. The '912 patent discloses a tension controlling feed roll prior to the second heating zone, the purpose of which is positively to increase or decrese tension

independent of that in the first zone. Indeed, the examiner in the Reissue recognized this:

> Certainly there should be no question as to how the Italian patent operates and with what art area it is concerned, and the primary difference between it and Applicant's process is the positioning of the rolls between the twist spindle and the second heater to enable Applicant to control and adjust the tension in the yarn in both the crimping zone and in the post-hearing zone separately from one another.

(Court Exhibit 2, p. 18, ¶ 34). This characteristic is not present in Da Gasso, since it is only possible to increase tension through the second zone in Da Gasso. Put differently, it is impossible to overfeed yarn through the second heater zone by Da Gasso. (T. 4805-4808). Likewise, both experts agree that the exminer had a better reference before him in Belgium Patent 545,983 (Chavanoz) (Dudzik at 5399, Backer at 4789).

26. During the original prosecution of the '912, the Chavanoz patent was combined with U.S. Patent 2,011,212 (Finlayson) to formulate a rejection of certain then pending claims. On further consideration the examiner allowed the claims over this combination rejection. The expert testimony in this trial, consistent with the examiner's position in the original application, establishes that Da Gasso does not supply the admitted deficiency in the Finlayson/Chavanoz combination. (T. 5103).

27. There is no evidence of deceptive intent with respect to the failure to cite Da Gasso in the original application. It is apparent that it "differs markedly" from the applicant's disclosure and there is at least an honest and reasonable difference of legal opinion as to the materiality of Da Gasso with respect to the applicant's claims. (T. 5509-19). There were no documents or other evidence establishing that the applicants or their attorneys or Leesona actually believed that Da Gasso disclosed controlled tension in the second heating zone, or that they believed it was a better reference. (T. 5055). The evidence does show, however, that they believed that the claim limita-

tions in the '912 were clearly and patentably distinguished from Da Gasso. (T. 5057, 5154, 5517-19).

28. During the prosecution of the original '912 application, the Primary Examiner declared an Interference (92038) with an application filed by Marijon Baebler (Baebler). Stoddard and Seem conceded that they could not prove the Count in Interference and it was dismissed following a settlement between Stoddard and Seem and the owner of the Baebler application. The only subject matter found in the '912 which is arguably supported by the Baebler disclosure is claim 23. At the time of the Stoddard/Seem/ Baebler settlement of the Interference, all parties knew that if claim 23 was supported by both applications then Stoddard and Seem were not entitled to it. The Examiner concluded that Baebler did not support claim 23 as he allowed that claim. Accordingly, Examiner Petrakes' finding in the reissue that there is no collateral estoppel as a consequence of the Baebler interference is persuasive. (Court Exhibit 2, p. 12, ¶ 25).

29. In contrast to today's requirement, Stoddard and Seem had no obligation to disclose to the PTO the written agreement by which the Baebler interference was settled. In any event, the settlement agreement did not have any impact on claim 23 of the '912 as that claim would either rise or fall based upon the respective disclosures of the '912 and Baebler. (T. 5535-42).

30. Claim 23 of the '912 has never been asserted by any owner of the '912 patent, and it is clear that by the time of the Baebler interference in 1962 it was recognized that claim 23 of the '912 had no commercial value. (T. 5402). Taking the evidence as a whole, it appears that the settlement of the Baebler interference was simply a commercially practical business arrangement.

LACHES AND ESTOPPEL

31. Burlington, J. P. Stevens and Avtex Fibers have asserted the defenses of laches and estoppel.

32. The following acre quotes from Throwster Proposed Post Trial Findings of Fact, Purge Trial, submitted June 4, 1979. The references are to the Throwster paragraph numbers:

A. "In 1971, Lex Tex filed a number of actions for infringement of the Lex Tex patents and for breach of agreements to pay royalties under the Lex Tex patents." (paragraphs 5.1)

B. "Universal Textured Yarns, Inc. was a party to one of the prior actions." (paragraph 5.2)

C. "Burlington Industries, Inc. was a party to one of those prior actions involving the enforceability of the Lex Tex patents." -(paragraph 5.3)

D. Dow Badishe Co. is the successor to Universal Textured Yarns, Inc." (paragraph 1.7).

E. "On November 20, 1974, July 30, 1975, and May 5, 1976, Lex Tex caused announcement to be published in the tradepress, which said:

> 'The purpose of this notice is to advise that Lex Tex Ltd., Inc. will *upon favorable determinations in the Florida litigation* proceed in appropriate courts throughout the United States to obtain compensation from all those who have made infringing uses of its rights. (Tr. 797-97A; Ex. 64/A; emphasis supplied)'" (paragraph 13.13)

F. "By these notices, Lex Tex intended to indicate to the throwster industry that if it had a 'favorable determination in the Florida litigation on the pending appeal to the Fifth Circuit, it would enforce its double-heater patents. (Tr. 797-99)" (paragraph 13.14)

G. "Lex Tex did nothing with respect to the rebate provisions of its agreements in the period immediately following the decision of the Court of Appeals for the Fifth Circuit; yet, on February 24 and March 15, 1977, Lex Tex caused an announcement to be published in the trade press stating--in the identical language of the prior announcements and with the purpose of inducing the public to link the two—that:

'A favorable determination has been made in the Fifth Circuit litigation concerning an attack on the validity of Lex Tex patent product claims. (Ex. 64A; Tr. 800-03)'" (paragraph 13.15)

H. "By virtue of the 1977 announcements, Lex Tex gave the public and the throwing industry the false impression that it had 'a favorable determination' in the Fifth Circuit litigation which, as indicated by the use of similar phrasing in the 1975 and 1976 announcements, would trigger enforcement of the patents by Lex Tex. (Tr. 800-03)" (paragraph 13.16)

33. "The Daily News Record is a trade publication for the textile industry that appears in newspaper format, five days a week." Information contained therein, whether by advertising or otherwise, is notice to the textile industry in general, and the Throwsters, in particular. (T. 2132).

34. The Throwster industry was fully aware of the Lex Tex position (T. 407-408) that its patents were being infringed from an early stage of the MDL No. 82 litigation. (T. 380-381).

35. There is no testimony in the record from which any prejudice or damage to any of:the. Throwsters accrued as a consequence of the timing of the institution of suits against them.

36. Lex Tex's misuse of its patents terminated May 31, 1977.

37. In or about March of 1964, an agreement was made between Leesona Corporation and ARCT, Chavanoz, Deering Milliken Research Corporation (DMRC), by which Leesona agreed not to bring suit on the '912 patent which it then owned, against persons or companies in the United States who brought and operated ARCT machines pursuant to a use license issued by DMRC. (T. 2294-2296). When Lex Tex acquired the '912 patent, to its knowledge there were no ARCT machines sold in the United States which were not licensed by DMRC (T. 2297). Accordingly, Lex Tex's predecessor Leesona, and Lex Tex, had not, until 1970, undertaken suit against ARCT machine users in the United States. (T. 2296-2297).

38. In or about 1970, litigation between numerous Throwsters (including Burlington) on one side, and DMRC, Chavanoz and ARCT on the other side, commenced in South Carolina. Thereafter, in or about 1971, ARCT machines were sold in the United States to Throwsters who did not have or take a use license from DMRC. (T. 2297).

39. Lex Tex first became aware in or about 1972 that there were operators of ARCT machines in the United States who were not licensed by DMRC who might therefore be sued for infringement of the '912 patents.

40. The legality of the 1964 agreement between Leesona, ARCT, et al. had been made an issue in the litigation in South Carolina. (T. 2298).

41. Consequently, Lex Tex decided that until such time as that litigation over the legality of that agreement was concluded, it would not commence actions against ARCT machine users in the United States who were not licensed by DMRC because of the real prospect of becoming embroiled in the South Carolina litigation and thus diverting its efforts from MDL No. 82. (T. 2298)

42. The decision in the South Carolina litigation came down in July of 1977, and, upon the advice of counsel, Lex Tex shortly thereafter commenced suits against Throwsters who were using ARCT equipment in the United States. (T. 2299).

43. In or about 1968 or early 1969, Leesona Corporation developed and prepared to market the 570 machine by the use of which set yarn could be produced. (T. 5303).

44. Leesona, in offering that machine to the trade, offered Lex Tex licenses to its Throwster purchasers covering the ,912 and '724 patents. As many as 15 to 20 such licenses were executed by actual and prospective customers of Leesona 570 machines. (T. 5305).

45. At about the end of 1969, suits were commenced in New York between the Throwsters and Leesona. Thereafter it be-

came apparent that there would be no further royalty payments from Throwsters, including those operating double-heater machines under Lex Tex licenses. (T. 5306-07).

46. In or about the beginning of 1970, Lex Tex Florida was created and the '912 and '724 patents previously held by Lex Tex North Carolina were transferred to Lex Tex Florida. Lex Tex sought to clarify its licensing posture by writing those Throwsters who had executed licenses with it, but whose expressed intent was not to honor those licenses, by proposing a cancellation of the license. (T. 5307-08).

47. The original Lex Tex actions were asserted in the Southern District of Florida against those Throwsters with whom Lex Tex had license agreements, with the agreements forming the basis for jurisdiction over them in Florida. Those suits were commenced in early 1971. (T. 5308).

48. No infringements against Throwsters outside Florida were made in early 1971 because Lex Tex, for economic reasons, sought to confine its litigation over its patent rights to the Southern District of Florida. (T. 5309). That decision was communicated to the Trade in 1972 and 1973 by publication in the Trade papers. (T. 5310).

49. J. P. Stevens made no investigation of validity or prospective infringement of the Lex Tex '912 patent before purchasing its ARCT machines in 1971. (T. 5239-40).

50. J. P. Stevens, at the time it acquired its ARCT machines in 1971, had never seen nor reviewed the 1964 Settlement Agreement. (T. 5240).

51. Pursuant to Throwster Exhibit 1825, an offer by Lex Tex to J.P. Stevens, if said offer had been accepted by J.P. Stevens, it would have resulted in a payment by J.P. Stevens to Lex Tex of royalties under the '912 patent. (T. 5245).

52. That agreement contemplated licensing Lex Tex patents. The license agreement contemplated by Exhibit 1825 was to be

executed by Lex Tex and J. P. Stevens with J.P. Stevens obliged to pay royalties under the '912 patent. (T. 5246-47).

53. With respect to Throwster Exhibit 1828, a letter from Mr. Conrad to Mr. Frimer, the offers conveyed in that letter were withdrawn by telegram, Exhibit 1830. (T. 5249).

54. Exhibit 1824, a letter of June 23, 1971 by Mr. Conrad to J. P. Stevens, shows that Lex Tex was offering a license to J. P. Stevens under the '912 patent. (T. 5257-60).

55. J. P. Stevens never had a license from DMRC under the Chavanoz patent. (T. 5262).

56. Beginning in 1971, Lex Tex consistently took the position that J. P. Stevens required a license under the '011 patent and should pay Lex Tex under the '912 patent for the benefit of its customers (T. 5263). On the other hand, J. P. Stevens' position was that they did not need a license under the ,912 nor did their customers who purchased yarns manufactured by J. P. Stevens on its ARCT machines. That position was J. P. Stevens' internal position which was not transmitted to Lex Tex (T. 5263).

57. Lex Tex, in 1971, 1975, and 1976, consistently informed J. P. Stevens that they needed a license for their customers under the '912 patent. (T. 5264).

58. Exhibit 1826 is an offer to license J. P. Stevens payment for which, under the '912 patent, is to be made on the basis of yarns produced, whether sold to customers or not. (T. 5273-75).

59. At no time did Lex Tex tell anyone connected with J. P. Stevens that J. P. Stevens was licensed under the '912 or '724 patent, as a consequence of the 1964 ARCT Leesona Settlement Agreement. (T. 5329). Nor did J. P. Stevens tell Lex Tex that it had a license under the '912 and '724 patents as a result of that 1964 Agreement. (T. 5329).

60. In mid 1971, and again in 1974, Lex Tex approached the general counsel for J. P. Stevens concerning a settlement. (T. 5329). Lex Tex never told J. P. Stevens nor any other Throwsters that it did not intend to pursue its rights against

infringers of the '912 patent, as enforcing its patents and licensing them was its only business. Moreover, Lex Tex was obligated under its agreement with Permatwist to enforce and license its patents. (T. 5330).

61. Lex Tex, having had many discussions with many Throwsters over the years, never was told by any Throwster that it had purchased double-heater machines ignorant of Lex Tex's patent rights. (T. 5330).

62. ARCT began to sell double-heater machines in the United States in 1972 without DMRC use licenses. (T. 2296).

63. Suit for infringement of the '912 product claims was brought against Burlington on June 15, 1977.

64. Accordingly to Mr. Burroughs, general counsel for Burlington, the latter Burlington, in 1969, Burlington was told that it needed a Lex Tex license to operate Leesona double-heater machines. (T. 2135).

65. No testimony was offered by Burlington that it suffered any prejudice from any delay by Lex Tex in instituting its suit aginst Burlington for infringement.

66. Burlington's plans to purchase double-heater machines in 1969 was not established to be known by Lex Tex at that time. The earliest date that could be inferred from the record as to when Lex Tex gained knowledge of Burlington's infringing activity would be 1972, the year ARCT began to sell machines in the United States without DMRC licenses.

67. Burlington was first informed in 1973 that Lex Tex considered Burlington an infringer. Mr. Conrad transmitted this information to Mr. John Malley, counsel for Burlington.

68. As early as 1974, Lex Tex had caused announcements to be published in the trade press that stated that Lex Tex intended to enforce its patents upon favorable determination of the South Florida litigation. (Throwsters proposed post trial findings of fact, purge trial, paragraph 13.13.) This constituted notice to the entire industry, including Burlington, that in-

fringers of the Lex Tex patents would eventually be sued. Burlington thus had notice of Lex Tex's intention to enforce its patents against it.

69. Avtex acquired certain assets of F.M.C., including a polyester texturing yarn plant in 1976. (T. 4649).

70. Lex Tex met with F.M.C. officials in or about 1972 and informed them, according to Mr. Gregg's "understanding", that Lex Tex felt it had a patent under which F.M.C. should be licensed in order that F.M.C.'s customers would be exempt from suit for infringement. (T. 4677-78).

71. In 1975, Lex Tex met with principals of F.M.C. and offered a license different from the license which it had offered in 1972. That offer was considered and rejected. (T. 4681).

72. The 1975 Lex Tex license proposal was rejected on the "general feeling that nothing had changed since 1971". (T. 4682).

73. Although Mr. Gregg, Chairman of the Board of Avtex Fibers, testified at length about information concerning his company, its acquisition of a yarn texturing facility from F.M.C., and various negotiations and business details related thereto, including considerations of patent liability made by both F.M.C. and Avtex, Mr. Gregg did not bring any Avtex files with him to court. (T. 4695).

74. Afer a review with counsel in preparation for his testimony at trial, Mr. Gregg did not find the ARCT Agreement to which he referrred in his testimony as "insulating" Avtex from suit by Lex Tex. (T. 4695).

75. Neither F.M.C., as the company from whom Avtex acquired its yarn texturing plant and some of its equipment, nor Avtex ever had a license from DMRC to operate ARCT equipment. (T. 4697-98).

76. Mr. Gregg did not know that one of the conditions of the 1964 ARCT Agreement was that only those ARCT machine

users having a use license from DMRC were immune from suit. (T. 4698).

77. Neither F.M.C. nor Avtex brought ARCT equipment from ARCT France. The written commitments and contract was negotiated with Mr. Robert Waters, an officer of the U.S. ARCT company, and not ARCT France. (T. 4698-99).

78. Mr. Gregg has read the Daily News Record since 1957. He was aware, from having read the News Record, of the existence of the Lex Tex claims and MDL 82. (T. 4699).

79. Mr. Gregg's understanding of the license offered by Lex Tex to F.M.C. is that it would have covered "yarn and use" of the product of the double-heater machines (T. 4700).

80. After F.M.C. purchased and installed ARCT equipment in 1971, notices appeared in the trade publications to that effect. Following these notices, Lex Tex got in touch with F.M.C. and offered a license to it concerning the yarn products of the ARCT equipment (T. 4704).

81. Mr. Gregg read various Lex Tex ads placed in the Daily News Record advising the trade that Lex Tex would pursue infringement suits against infringing Throwsters following the outcome of litigation in Florida. (T. 4706-4707).

82. Lex Tex returned to F.M.C. in 1975 before Avtex purchased the F.M.C. yarn texturing plant and equipment. At no time during Lex Tex's negotiations with F.M.R., Avtex's predecessor owner of its ARCT equipment, did F.M.C. assert that it had rights under the 1964 ARCT Agreement. (T. 4707, 5310). Lex Tex did not tell anyone th.at the ARCT 1964 Agreement offered licenses as that agreement was not drafted so as to result in the issuance of licenses to anyone. (T. 5310-11).

83. No serious consideration to the 1975 Lex Tex proposal was given by Mr. Gregg. (T. 4708).

84. The decision to buy ARCT equipment and open the plant in Radford, Virginia by F.M.C. was made before Lex Tex first proposed a license agreement to F.M.C. (T. 4708).

85. Neither F.M.C. nor Avtex had any double-heater equipment in Florida from 1971 to 1978. (T. 4708).

86. Mr. Gregg agreed that Lex Tex came to F.M.C. in 1972 to discuss a yarn end use license. (T. 4716).

87. In 1975, Lex Tex directly approached F.M.C. to discuss machine use patents as well as end use patents and left a draft copy of a proposed license agreement with F.M.C. That approach was before F.M.C. sold its ARCT machines and plant to Avtex. (T. 4717).

88. Shortly before F.M.C. informed the textile industry of its proposed venture into the synthetic yarn texturing business, Lex Tex spoke with their general counsel proposing an arrangement with Lex Tex so that machines they proposed to put in place could be operated without being subject to infringement claims under the Lex Tex patents. Their general counsel responded that F.M.C. had not finished its machinery installation, and, therefore, the inquiry was premature. (T. 5311).

89. The first meeting between Lex Tex and F.M.C. was before F.M.C. had its ARCT machines in place and ready to produce set yarn through their operation. At that time, Mr. Conrad spoke with the general counsel for F.M.C., Mr. Carroll, about the prospect of a license. He was told by Mr. Carroll that they were not then operating their double-heater equipment and that Lex Tex should return when operation had commenced to discuss the prospect of a license. As suggested, after operation of the machines commenced, Lex Tex renewed is inquiry about a license but nothing came of those negotiations. (T. 5327). The last time Lex Tex spoke with F.M.C. about licensing under the '912 patent was in or about 1975 (T. 5328). Lex Tex had no discussions or negotiations with Avtex concerning a license. Upon learning of the acquisition from F.M.C. of texturing equipment it filed a suit for infringement against Avtex. (T. 5328).

CONCLUSIONS OF LAW ON UNENFORCEABILITY

1. This Court has jurisdiction over the subject matter in this case and has jurisdiction over each of the parties. 28 U.S.C. §§ 1338(a), 1331 and 1332.

2. The far-reaching social and economic consequences of a patent give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945).

3. An applicant for a patent owes the highest degree of candor and good faith to the patent office. *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 439 F.2d 1369 (5th Cir. 1970); *Xerox Corp. v. Dennison Manufacturing Co.*, 322 F. Supp. 963, 968 (S.D.N.Y. 1971).

4. There is a distinction between "fraud" which invalidates a patent and "unclean hands or inequitable conduct" which renders the patent unenforceable. The distinction is without practical significance insofar as the consequences are concerned where the inequitable conduct occurs in connection with the prosecution of the patent application, so that the wrong cannot be purged while the patent remains in force. In either case, the value of the patent is irreparably destroyed. The distinction is significant only in regard to the proof required. *Timely Products Corp. v. Arron*, 523 F.2d 288 (2d Cir. 1975).

5. To constitute unclean hands or inequitable conduct, there must be some element of wrongfulness, willfulness, bad faith, recklessness or gross negligence. *Xerox Corp. v. Dennison Manufacturing Co.*, 322 F. Supp. 963, 968 (S.D.N.Y. 1971); *Parker v. Motorola, Inc.*, 524 F.2d 518, 535 (5th Cir. 1975); *Eudy v. Motor-Guide, Herschede Hall Clock*, 651 F.2d 299 (5th Cir. 1981); *DeLong Corp. v. Raymond International, Inc.*, 622 F.2d 1135, 1145 (3d Cir. 1980); *International Tel. & Tel. Corp. v. Raychem Corp.*, 538 F.2d 453, 461 (lst Cir. 1976).

The standard is not one of strict liability for innocent or even negligent omissions or misstatements before the Patent Office. *Pfizer, Inc. v. International Rectifier Corp.*, 538 F.2d 180, 186 (8th Cir. 1976). To deny enforcement as a matter of law merely because of an innocent or good faith non-disclosure would go beyond what is necessary to protect the public against the

improvident granting of a monopoly. The patent applicant has the right to exercise good faith judgment in deciding what matters are and are not of sufficient relevance and materiality to require disclosure. *Xerox Corp. v. Dennison Manufacturing Co.*, 322 F. Supp. 963, 968 (S.D.N.Y. 1971); *Parker v. Motorola, Inc.*, 524 F.2d 518, 535 (5th Cir. 1975).

In *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 439 F.2d 1369 (5th Cir. 1970), the Fifth Circuit found that the patentee deliberately withheld from the Patent Office knowledge of prior art which would, if known by the Examiner, have resulted in the denial of the patent. The patentee's invention of a device used in electrochemical analysis contained only the invention of the prior art with no novel additions. When the patentee was preparing to get his device patented, one of its employees came across the prior art invention and wrote a memorandum to his manager explaining that the prior art invention was clearly within the scope of claims in the patentee's application. Unlike the situation in the case at bar where the patent applicants believed in good faith that their patent differed materially from the prior art, Beckman was notified by its employee of the great similarities in its patent application and the prior art and, therefore, could not in good faith state that it believed the prior art was irrelevant.

In *Scott Paper Co. v. Fort Howard Paper Co.*, 432 F.2d 1198, 1204 (7th Cir. 1970), the Seventh Circuit upheld the district court's finding that the patentee was not guilty of unclean hands. In *Scott*, the patentee failed to cite two prior art patents, Crane and Oldofredi. The district court held that both Crane and Oldofredi disclosed the method and structure in the patentee's claims. The parties challenging enforceability argued that the failure to cite these prior art patents, both of which were known to the patentee, constituted inequitable conduct The Seventh Circuit stated at 1205:

> Here there was no finding by the court that Scott was guilty of deliberate misrepresentation. The finding is that Scott was aware of Crane and Oldofredi and failed to

describe them to the Patent Office. Since there is sufficient evidence in the record that Scott, in good faith, disagreed with Fort Howard and the court as to the pertinence of Crane and Oldofredi, we are of the view that reversal is not required This is not a case where the nondisclosed prior art is almost identical with the patentee's invention, and therefore the cases cited by Fort Howard are inapposite.

Likewise, the patent applicants in MDL 82 believed in good faith that the Weiss and Da Gasso patents were not pertinent.

6. Proof of inequitable conduct must be established by clear, unequivocal and convincing evidence. *Pfizer, Inc. v. International Rectifier Corp., 538 F.2d 180 (8th Cir. 1976).*

7. Claim language is to be given its broadest reasonable interpretation in light of the specification. Application of Ehrreich, 590 F.2d 902, 907 (C.C.P.A. 1979); *In re Okuzawa,* 537 F.2d 545, 548 (C.C.P.A. 1976); *In re Royka,* 490 F.2d 981 (C.C.P.R. 1974).

8. In order to understand the critical limitation "control" as the term is used in the claims, it is necessary to refer to the specifications. *United States v. Adams,* 383 U.S. 39, 49 (1966); *Motion Picture Patents Co. v. Universal Film Manufacturing Co.,* 243 U.S. 502, 510 (1917).

9. The Weiss and Da Gasso patents are either not as material as other art cited by the PTO or there is competent conflicting opinions by reasonable experts such that the failure to cite Weiss and Da Gasso cannot constitute intentional deception or gross negligence.

10. While there is some evidence to indicate that the applicants of the '912 patent and their attorneys were negligent in failing to disclose the Weiss and De Gasso patents to the Patent Office, there is no clear and convincing evidence that they were grossly negligent, reckless, willful, wrongful or in bad faith. There is, therefore, no clear and convincing evidence of inequitable conduct by the applicants or their counsel.

11. The failure to advise the PTO of the terms of the settlement of the Baebler interference does not constitute inequitable conduct. There was no obligation to make the PTO aware of the terms of that settlement. The settlement and the dismissal of the interference had no collateral estoppel effect.

12. Claims 24, 26, 27 and 31 of the '912 patent are enforceable by Lex Tex.

CONCLUSIONS OF LAW ON ESTOPPEL AND LACHES

13. The defense of laches may be invoked where the plaintiff has unreasonably and inexcusabley delayed in prosecuting its rights and where that delay has resulted in material prejudice to the defendant. *Studiengesellschaft Kohle v. Eastman Kodak Co.*, 616 F.2d 1315, 1325 (5th Cir. 1980), *cert. denied*, 449 U.S. 1014.

14. Estoppel arises only when one has so acted as to mislead another, and the one thus misled has relied upon the action of the inducing party to his prejudice. *Studiengesellschaft Kohle v. Eastman Kodak Co.*, 616 F.2d at 1325.

15. J. P. Stevens has failed to prove that Lex Tex delayed in bringing suit agianst it for infringement in connection with ARCT machine use which was inexcusable and unreasonable and that J. P. Stevens was prejudiced thereby.

16. J. P. Stevens has failed to prove that Lex Tex should be estopped from asserting its right to recover from J. P. Stevens for infringement. In addition to there being an absence of evidence that J. P. Stevens was materially prejudiced by any delay by Lex Tex or that such delay was unreasonable and inexcusable, Lex Tex's conduct was not such as to mislead J. P. Stevens into justifiably relying on it to its detriment.

17. Burlington has failed to prove that Lex Tex delayed in bringing suit against it for infringement in connection with ARCT machine use which was inexcusable and unreasonable and that Burlington was prejudiced thereby.

18. Burlington has failed to prove that Lex Tex should be estopped from asserting its right to recover from Burlington for infringement. In addition to there being an absence of evidence that Burlington was materially prejudiced by any delay by Lex Tex or that such delay was unreasonable and inexcusable, Lex Tex's conduct was not such as to mislead Burlington into justifiably relying on it to its detriment.

19. Avtex has failed to prove that Lex Tex delayed in bringing suit against it for infringement in connection with ARCT machine use which was inexcusable and unreasonable and that Avtex was prejudiced thereby.

20. Avtex has failed to prove that Lex Tex should be estopped from asserting its right to recover from Avtex for infringement. In addition to there being an absence of evidence that Avtex was materially prejudiced by any delay by Lex Tex or that such delay was unreasonable and inexcusable, Lex Tex's conduct was not such as to mislead Avtex into justifiably relying on it to its detriment

DONE AND ORDERED at Miami, Florida, this *28* day of March, 1983.

UNITED STATES DISTRICT JUDGE

cc: Blackwell, Walker, Gray, et al. David Kavanaugh, Esq.
Fowler, White, *et al.*
Mershon, Sawyer, *et al.*
Smathers & Thompson

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Appeal Nos. 84-754 through 84-761

J. P. STEVENS & CO., INC.,
BADISCHE CORPORATION, AND
BURLINGTON INDUSTRIES, INC.
Appellants/Cross-Appellees,

v.

LEX TEX LTD., INC.,
Appellee/Cross-Appellant.

DECIDED: November 9, 1984

Before MARKEY, *Chief Judge*, DAVIS, MILLER, SMITH, and NIES, *Circuit Judges*.

MARKEY, *Chief Judge*.

Appeal from a final judgment of the District Court for the Southern District of Florida holding infringed, not invalid, and not unenforceable product claims 24, 26-27, and 31 of U.S. Patent No. 3,091,912 ('912 patent), issued on June 4, 1963 to Messrs. Stoddard and Seem, ultimately assigned to Lex Tex Ltd., Inc. (Lex Tex), and now expired. Burlington, Stevens, and Badische (Burlington) appeal those parts of the judgment holding that the claims were not invalid under 35 U.S.C. §§ 102 and 103, that Lex Tex purged itself of misuse as of May 31, 1977, and that the claims were not unenforceable due to fraud

on the Patent and Trademark Office (PTO). Lex Tex cross-appeals, arguing that its misuse purge occurred earlie than May 31, 1977. We reverse the portion of the final judgment holding that the claims in suit were not unenforceable.

BACKGROUND

A. History of the Litigation

This appeal evolved from litigation starting in 1969, involving at least six patents and fifty accused infringers in the yarn treating industry. In 1974, the district court for the Southern District of Florida, in which the cases had been consolidated, granted summary judgment against Lex Tex on the basis of its misuse of the '912 patent and other patents in licensing. 398 F. Supp. 31, 182 USPQ 523, *mod .*, 541 F.2d 1127, 192 USPQ 241 (5th Cir. 1976), *cert. denied*, 433 U.S. 910 (1977).

Lex Tex sued Burlington, alleging purge of misuse and infringement after the purge. The cases were transferred to the Southern District of Florida, where separate trials were held in this order: (1) without a jury, on the purge issue, resulting in a judgment that purge was achieved as of May 31, 1977; (2) with a jury, on the validity issue under §§ 102 and 103, resulting in a hung jury; (3) without a jury, on the equitable defenses of "fraud on the PTO", laches and estoppel, resulting in a judgment for Lex Tex; (4) with a jury, on the validity issue under 35 U.S.C. §§ 102 and 103, resulting in a judgment for Lex Tex; and (5) with a jury, on damages, resulting in an award to Lex Tex of nearly $8.8 million, plus interest.

The judgment on the equitable defenses was accompanied by written findings and conclusions, in which the district court determined that Stoddard and Seem (the '912 applicants) knew of and did not disclose during prosecution (1957 through 1963) British Patent No. 710,082 to Weiss (Weiss) and Italian Patent No. 531,481 to DaGasso (DaGasso). The court further determined, however, that there was no clear and convincing evidence of materiality or intent and, hence, no fraud on the PTO.[1]

[1]The district court also rejected a defense of fraud based on failure to disclose an agreement settling an interference between the owner of a Baebler application and the '912 applicants. Because of our disposition we need not and do not address the rejection of that defense.

B. The '912 Patent

The '912 patent relates to reprocessing "torque stretch yarns", produced by twisting a multi-filament yarn, heat setting the twist, and reverse twisting. Production of torque stretch yarns was the subject of three basic "single heatter" patents involved in earlier phases of the litigation.

Torque stretch yarns possess certain properties that the processes claimed in the '912 patent were designed to improve by simultaneously applying heat and tension to the yarn in whatever correlation is required to produce desired effects. Different correlations produce different effects. Process claim 1 reads:

> 1. The method of processing multifilament "torque stretch yarn" whose stretch characteristics have been set at a given temperature comprising the steps of continuously advancing the yarn, controlling the degree of tension in said travelling yarn in at least one portion of its continuous travel, said tension being below the breaking tension of the structural elements of the yarn, heating said yarn during said portion of its continuous travel to a temperature not substantially greater than said given temperature and correlating the controlled tension and the heat imparted to said yarn with the tensile force necessary to extend the [yarn to the limit of its stretch characteristics and the tensile force necessary to extend the yarn to the yield point of the structural elements of the yarn to thereby control the physical characteristics in the reprocessed yarn.

Other process claims specify the correlating criteria, add the step of controlling tension in a second portion of the yarn's travel, or add a process of making torque stretch yarn from multifilament yarn before performing the process set forth in claim 1. The process claims were originally in suit but were withdrawn after the Board opinion in a PTO reissue proceeding, discussed *infra* , determined that most of them do not avoid the prior art.

The yarns produced by the processes of the '912 patent are asserted to have uniform characteristics throughout their length. Moreover, the tendency of torque stretch yarn randomly to "pigtail", i.e., the tendency of groups of opposed spiralled formations to twist about themselves, is described as lessened. Product claims 24, 26, 27, and 31, the only claims in suit, cover the yarn produced by the foregoing processes, though not couched in product by process terminology. Claim 24 reads:

> 24. A processed "torque stretch yarn" characterized by uniform reorientation of the structural elements of the yarn components to thereby exhibit substantial uniformity throughout its length in its latent and manifest physical characteristics of shape, luster, cross-sectional area, texture, dimensional stability, torque, resilience, residual shrinkage, stretch, recovery from stretch, and elasticity, said yarn having substantially balanced torque and moderate bulk and a plurality of individual filaments manifesting a plurality of partially spiralled formations of opposed direction which remain separate from one another without tending to twist upon themselves or pigtail when relaxed, said formations being yarn-set.

Claim 26 is identical to claim 24 except that the bulk is "high" instead of "moderate" and the filaments "infrequently tend to . . . pigtail when relaxed". Claim 27 is identical to claim 24 except that the bulk is "high". Claim 31 reads:

> 31. A reprocessed torque stretch yarn having in at least a portion of its length a filament have substantially regular opposed partially spiralled formation, the spirals of said filament being less than one convolution.

C. Weiss and DaGasso Patents

The Weiss patent teaches that undesirable characteristics of stretch yarn made by a prior twist-heat set-untwist batch method can be lessened by stretching the yarn from 10% to 70% and steaming it in the stretched state for up to 30 minutes.

The Weiss patent discloses a batch process, as opposed to the continuous process of the '912 patent. The Weiss patent had counterparts in a number of foreign countries, including the United States (U.S. Patent No. 2,765,505, issued on October 16, 1956).

DaGasso teaches subjecting yarn made by a continuous twist-heat set-untwist method to a second continuous process involving heat treatment followed by a drawing action. The parties agree and the district court found that during heat treatment the yarn is under positive tension.

D. Prosecution History of the '912 Patent

The application that resulted in the '912 patent ('912 application) was filed on April 19, 1957, with process claims 1-23, product claims 24-29, and apparatus claims 30-32, to which a fourth apparatus claim 33 was added by amendment before the examiner's first Office Action. Pursuant to a restriction requirement in the first Office Action, apparatus claims 30-33 became claims 1-4 of Continuation-In-Part (CIP) application 682,724, filed September 9, 1957 and issued on February 19, 1963, as U.S. Patent No. 3,077,724 ('724 patent). The specification of application 682,724 ('724 application) is essentially identical to that of the '912 application.

In the second Office Action on the '912 application, claims 1-23 and 25-29 were indicated as allowable. Only product claim 24 (subsequently issued) was rejected as unpatentable, on U.S. Patent No. 2,411,132 to Hawthorne. Subsequent office actions involved rejections of added product claim 37 (subsequently issued as claim 31) on U.S. Patent No. 2,564,245 to Billion and, later, on U.S. Patent No. 2,909,028 to Comer et al., and of added product claim 35 (subsequently issued claim 30) on U.S. Patent No. 2,211,211 to Finlayson in view of Belgian Patent No. 545,983 to Chavanoz.

E. Reissue Proceeding

After trial of the purge issue, but before the first trial on the validity issue, the district court issued an order: requiring Lex

Tex to file application for reissue of the '912 patent in the PTO; permitting Lex Tex to modify the reissue oath to preserve its position in the litigation; instructing the PTO "to use the expedited new reissue procedure"; and permitting defendants to participate in the PTO proceedings.[2]

The district court later: ordered the parties not to raise at trial any patentability issue which could have been but was not presented in the reissue proceeding; reiterated its position that the PTO was to serve essentially as a Special Master on validity; and stated that the examiner's Report was to be treated in the trial of the validity issue as prima facie evidence of the facts it contained. The court said the reissue result was not needed for any conclusion on fraud because "the fraud or misrepresentation issue is a legal not technical one, and is equally within the expertise of the Court".

The reissue examiner rejected all but seven claims in view of Weiss or DaGasso. Product claims 24-28 and 31 were rejected under 35 U.S.C. § 103 on either Weiss or DaGasso.

On appeal to the Board, claims 2, 9-14, 16, 24-29 and 31 were considered to avoid Weiss and DaGasso, while claims 1, 3-8, 15, 17-23, and 30 were viewed as not avoiding the prior art.[3]

ISSUE

Whether the claims in suit are unenforceable because of inequitable conduct before the PTO.[4]

[2]The order was issued during the period of the "Dann Amendments" (March 1977 through May 1982) during which patentees could seek "no-defect" reissues, and have their claims considered in light of new prior art without amending the claims or specification and without including in the reissue oath a statement of belief, otherwise required by 35 U.S.C. § 251, that the original patent was "wholly or partly inoperative or invalid". Though the reissue application would be rejected for failure to comply with § 251, the record of prosecution would indicate the PTO's evaluation of the prior art and thereby assist a district court.

[3]Burlington says "events prevented" its submission of the fraud issue during the reissue proceeding. The Assistant Commissioner ordered the issue set aside until after disposition of the patentability issue and trial was resumed before the PTO reached the fraud issue.

[4]In view of our disposition, we need not and do not address the patent validity or purge of misuse issues.

OPINION

A. "Inequitable Conduct"

"Common law fraud" requires (1) misrepresentation of a material fact, (2) intent to deceive or a state of mind so reckless respecting consequences as to be the equivalent of intent (scienter), (3) justifiable reliance on the misrepresentation by the party deceived, inducing him to act thereon, and (4) injury to the party deceived, resulting from reliance on the misrepresentation. *Norton v. Curtiss*, 433 F.2d 779, 793, 167 USPQ 532, 543 (CCPA 1970).[5]

Conduct before the PTO that may render a patent unenforceable is broader than "common law fraud". *Norton v. Curtiss*, 433 F.2d at 793, 167 USPQ at 543-44. It includes failure to disclose material information, or submission of false material information, with an intent to mislead. Because the "fraud" label can be confused with other forms of conduct, this opinion avoids that label and uses "inequitable conduct" as a more accurate description of the proscribed activity, it being understood that the term encompasses affirmative acts of commission, *e.g.*, submission of false information, as well as omission, *e.g.*, failure to disclosure material information.

"Inequitable conduct" requires proof by clear and convincing evidence of a threshold degree of materiality of the nondisclosed or false information. It has been indicated that the threshold can be established by any of four tests: (1) objective "but for"; (2) subjective "but for"; (3) "but it may have been"; and (4) PTO Rule 1.56(a), *i.e.*, whether there is a substantial likelihood that a reasonable examiner would have considered the omitted reference or false information important in deciding whether to allow the application to issue as a patent. American Hoist, 725 F.2d at 1362, 220 USPQ at 772-73. The

---

[5] In *American Hoist & Derrick Co. v. Sowa & Sons*, 725 F.2d 1350, 1367, 220 USPQ 763, 776 (Fed. Cir.), *cert. denied*, 53 U.S.L.W. 3225 (1984), this court stated that *Norton* erroneously referred to "technical" instead of common law fraud, and vowed not to use "technical".

PTO standard is the appropriate starting point because it is the broadest and because it most closely aligns with how one ought to conduct business with the PTO. *American Hoist*, 725 F.2d at 1363, 220 USPQ at 773. It served as the focus of inquiry in *Hycor Corp. v. The Schleuter Co.*, 740 F.2d 1529, 1539, 222 USPQ 553, 560 (Fed. Cir. 1984), and in *Driscoll v. Cebalo*, 731 F.2d 878, 884, 221 USPQ 745, 750 (Fed. Cir. 1984). Under the standard, a reference that would have been merely cumulative is not material. *Kimberly-Clark Corp. v. Johnson Johnson*, No. 83-1066, sl. op. at 35-38 (Fed. Cir. Oct. 9, 1984).

"Inequitable conduct" also requires proof of a threshold intent. That intent need not be proven with direct evidence. *Hycor*, 740 F.2d at 1540, 222 USPQ at 561. It may be proven by showing acts the natural consequences of which are presumably intended by the actor. *American Hoist*, 725 F.2d at 1363, 220 USPQ at 773; *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1151, 219 USPQ 857, 862 (Fed. Cir. 1983). Proof of 84-754/761 deliberate scheming is not needed; gross negligence is sufficient. *Hycor*, 740 F.2d at 1540, 222 USPQ at 561. Gross negligence is present when the actor, judged as a reasonable person in his position, should have known of the materiality of a withheld reference. *Driscoll v. Cebalo*, 731 F.2d at 885, 221 USPQ at 751; *Kansas Jack, Inc. v. Kuhn*, 719 F.2d at 1152, 219 USPQ at 862. On the other hand, simple negligence, oversight, or an erroneous judgment made in good faith, is insufficient. *Orthopedic Equip. Co. v. All Orthopedic Appliances*, 707 F.2d 1376, 1383, 217 USPQ 1281, 1286 (Fed. Cir. 1983).

Once the thresholds of materiality and intent are established, the court must balance them and determine as a matter of law whether the scales tilt to a conclusion that inequitable conduct occurred. *American Hoist*, 725 F.2d at 1364, 220 USPQ at 774. If the court reaches that conclusion, it must hold that the patent claims at issue are unenforceable.

Whether the holding should be one of invalidity or unenforceability has had no practical significance in cases thus far presented to this court and has not therefore been addressed.

This court has accepted the terminology employed by the district court. *Compare, Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 220 USPQ 193 (Fed. Cir. 1983) (upholding district court determination that the patent was not unenforceable for fraud)[6] with *Rohm and Haas Co. v. Crystal Chemical Co.*, 722 F.2d 1556, 220 USPQ 289 (Fed. Cir. 1983), *cert. denied*, 53 U.S.L.W. 3225 (1984) (reversing determination that the patent was not invalid for fraud).

The Supreme Court has discussed inequitable conduct, as a defense to a claim of patent infringement, in terms of enforceability, *see, e.g., Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814-16 (1945). In *Walker Processing Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 176 (1965), in addressing a claim for damages under § 4 of the Clayton Act based, *inter alia*, on alleged willfully fraudulent procurement of a patent, the Court spoke of "invalidity". Some courts have extrapolated from *Walker Processing* two categories of defenses: (1) "fraud", rendering the patent invalid and (2) "other inequitable conduct", rendering the patent unenforceable. *See, e.g.* , *Timely Products Corp. v. Arron*, 523 F.2d 288, 297, 187 USPQ 257, 264 (2d Cir. 1975); *In re Multidistrict Litigation Involving Frost Patent*, 398 F. Supp. 1353, 1367-68, 185 USPQ 729, 740 (D. Del. 1975), *aff'd in part*, 540 F.2d 601, 191 USPQ 241 (3rd Cir. 1976).[7]

Focusing on the effect of inequitable conduct as a defense, we conclude that it results in unenforceability. The Patent Act of

---

[6] *Connell* added, in footnote 7, that, fraud on the PTO "may result" in a holding of nonenforceability equivalent to invalidity. In *Connell*, the inequitable conduct—if it had been proven—would have been "conduct incurable with respect to the claims as presently drawn".

[7] Our discussion of the criteria for unenforceability does not encompass the test for a *Walker Process* type of claim.

In *Timely Products*, it was said that claims can be unenforceable due to "unclean hands" without satisfaction of the materiality requirement, and that claims can be invalidated due to fraud when the materiality requirement is satisfied. That categorization is inconsistent with this court's view that materiality is a necessary ingredient of any inequitable conduct.

1952 states in 35 U.S.C. § 282 the defenses to a patent infringement suit:

> (1) Noninfringement, absence of liability for infringement, or unenforceability.
>
> (2) Invalidity of the patent or any claim in suit "on any ground specified in part II of this title as a condition for patentability" [*i.e.*, "novelty and loss of right" under § 102 and "non-obvious subject matter" under § 103].
>
> (3) Invalidity under sections 112 or 251 of this title.
>
> (4) Any fact or other act made a defense by this title.

Paragraph (1) includes "equitable defenses such as laches, estoppel and unclean hands". P. J. Federico, "Commentary On The New Act", 35 U.S.C.A. at 55. Because at the time the Patent Act was enacted Supreme Court cases had treated inequitable conduct as an "unclean hands" type defense, *see, e.g., Precision Instrument, cf., Driscoll v. Cebalo*, 731 F.2d at 884, 221 USPQ at 750-51, the defense fits best in the "unenforceability" phrase of paragraph (1). That approach accords, also, with the specification of particular bases for invalidity in paragraphs (2) and (3) in § 282.

The CCPA decision in *Norton v. Curtiss*, 433 F.2d at 793, 167 USPQ at 543 supports the view that inequitable conduct results in unenforceability:

> In suits for patent infringement, unenforceability, as well as noninfringement or invalidity under the patent laws, is a statutory defense. See 35 U.S.C. § 282(1). We have noticed that unenforceability due to fraudulent procurement is a rather common defense. In such circumstances, we find that the courts are generally applying equitable principles in evaluating the charges of misconduct alleged to be fraudulent. Thus, in suits involving patents, today, the concept of "fraud" on the Patent Office (at least when a patentee's conduct pertaining to the relative merits of his invention is concerned) encompasses not only that which

> we have termed earlier "technical" [*i.e.*, common law] fraud but also includes a wider range of "inequitable" conduct found to justify holding a patent unenforceable.

Accord, American Optical Corp. v. United States, 179 USPQ 682, 684 (Ct. Cl. Tr. Div. 1973).

Once a court concludes that inequitable conduct occurred, all the claims—not just the particular claims to which the inequitable conduct is directly connected—are unenforceable. *See generally*, cases collected in 4 Chisum, PATENTS, ¶ 19.03[6] at 19-85 n.10 (1984). Inequitable conduct "goes to the patent right as a whole, independently of particular claims". *In re Clark*, 522 F.2d 623, 626, 187 USPQ 209, 212 (CCPA 1975). As stated in *Gemveto Jewelry Co. v. Lambert Bros., Inc.*, 542 F. Supp. 933, 943, 216 USPQ 976, 984 (S.D.N.Y. 1982):

> The gravamen of the fraud defense is that the patentee has failed to discharge his duty of dealing with the examiner in a manner free from the taint of 'fraud or other inequitable conduct'. If such conduct is established in connection with the prosecution of a patent, the fact that the lack of candor did not directly affect *all* the claims in the patent has never been the governing principle. It is the inequitable conduct that generates the unenforceability of the patent and we cannot think of any cases where a patentee partially escaped the consequences of his wrongful acts by arguing that he only committed acts of omission or commission with respect to a limited number of claims. It is an all nothing proposition. [Emphasis in original.][8]

If affected claims were considered invalid, rather than unenforceable, the entire patent would nonetheless be affected. Section 288 of Title 35 states:

> Whenever, *without deceptive intention*, a claim of a patent is invalid, an action may be maintained for the infringe-

---

[8] In *In re Multidistrict Litigation Involving Frost Patent*, 540 F.2d 601, 611, 191 USPQ 241, 249 (3rd. Cir. 19/6), some claims were upheld despite nondisclosure with respect to others. That case is not precedent in this court.

> ment of a claim of the patent which may be valid. [Emphasis added.]

That provision was intended to eliminate the "common law rule that if a patent is invalid in part it is completely invalid". *Federico, supra*, 35 U.S.C.A. at 48. The "without deceptive intention" phrase in ¶ 288 reveals that the common law rule is not eliminated "when deception or fraud is involved". *Id. See, Chromalloy American Corp. v. Alloy Surface Co., Inc.*, 339 F. Supp. 859, 875, 173 USPQ 295, 306 (D. Del. 1972) ("§ 288 by its express terms rules out infringement actions to enforce a patent in which any one of its claims is invalid by reason of fraud or deception"). *Accord, Kearney Trecker Corp. v. Giddings & Lewis, Inc.*, 452 F.2d 579, 596, 171 USPQ 650, 664 (7th Cir. 1971), *cert. denied*. 405 U.S. 1066 (1972); *Reynolds Metal Co. v. Continental Group, Inc.*, 525 F. Supp. 950, 971, 210 USPQ 911, 929 (N.D. Ill. 1981).

In this case, our analysis focuses on the process claims. We conclude that inequitable conduct occurred with respect to those claims and that the product claims in suit are therefore unenforceable.

B. Standard of Review

Materiality and intent are factual issues subject to the clearly erroneous standard of review. *See, e.g. Hycor*, 740 F.2d at 1539-40, 222 USPQ at 557, *American Hoist*, 725 F.2d at 1361, 220 USPQ at 772. Thus, this court must affirm findings on materiality and intent unless it is left with a definite and firm conviction that error has occurred. *See, e.g., Raytheon Co. v. Roper Corp.*, 724 F.2d 951, 956, 220 USPQ 592, 596 (Fed. Cir.), *cert. denied*, 53 U.S.L.W. 3225 (1984). If the threshold of materiality and intent is crossed, we must determine, as a matter of law, whether inequitable conduct occurred. *American Hoist*, 725 F.2d at 1364, 220 USPQ at 774.

C. Materiality of Weiss and DaGasso

The district court, essentially ignoring the PTO reissue proceeding, found that "[t]he Weiss and DaGasso patents are

either not as material as other art cited by the PTO or there is [sic] competent conflicting opinions by reasonable experts such that the failure to cite Weiss and DaGasso cannot constitute intentional deception or gross negligence. "It found that the '912 invention differed from those of Weiss and DaGasso, and stated that "[t]his difference indicates that the inventions involved are significantly different, and the claim language that the patentees have been consistently relying on to distinguish their invention over Weiss and DaGasso has some genuine technological base."

Error resulted from a failure to give primary consideration to events involved in the PTO reissue proceeding. As stated above, the starting point for determining materiality is the PTO standard, i.e., a substantial likelihood that a reasonable examiner would have considered the nondisclosed information important in deciding whether to allow the application to issue as a patent. Consequently, the result of a PTO proceeding that assesses patentability in light of information not originally disclosed is of strong probative value in determining whether the nondisclosed information would have been material.

The rejections of the process claims in reliance on Weiss and DaGasso in the reissue proceeding indicate that those references were clearly important to the PTO in deciding that most of the process claims were unpatentable. Those references would have been equally important in the original prosecution of the '912 application. That importance, alone, establishes the materiality of those references—as long as the rejections were themselves reasonable. The latter condition, which is necessary to a finding under the PTO standard of materiality that a "reasonable examiner" would have considered the references important, is satisfied here. The process claims include the key step of subjecting a torque stretch yarn to a selected tension during heat treatment. That step is taught by Weiss and DaGasso, rendering them more material, or "important" under the PTO standard, than any of the references cited in the original prosecution or by the district court. It was clearly reasonable, therefore, for the examiner to make, and the

Board for the most part to sustain, rejections of the process claims on Weiss and DaGasso.

The district court appears to have been persuaded by Lex Tex' argument that the process claimed in the '912 patent differed significantly from the processes of Weiss and DaGasso. Its process, says Lex Tex, involves "controlling" the tension by positively driven feed rolls whereby the tension can be increased or decreased. Though Weiss and DaGasso involve means to increase tension, says Lex Tex, they do not include feed rolls that can increase or decrease it, and the invention described in the '912 specification therefore differs from that described in the references. Lex Tex argues that claims are interpreted in light of the specification and that the "control" language of the claims must be therefore limited to means that can increase or decrease tension, *i.e.*, positively driven feed rolls.

We disagree. Claims should be construed in light of the specification, *see e.g.*, *Fromson v. Advance Offset Plate, Inc.*, 720 F.2d 1565, 1569, 219 USPQ 1137, 1140 (Fed. Cir. 1983), but that does not mean that claims incorporate all disclosures in the specification. *Id.* at 1570, 219 USPQ at 1141. Moreover, nothing in the '912 specification requires that the process claims be limited to control means that can either increase or decrease tension (such as positively driven feed rolls). The specification discloses six general embodiments of the process invention, two that involve reducing tension and four that involve increasing tension after the torque stretch yarn is produced. The "controlling" limitation of the process claims reads on selecting a tension and applying heat—whether the tension be high or low. It does not require, whether or not it is read in light of the specification, that the controlling mean be capable of selectively accomplishing either an increase or decrease in tension. Indeed, the specification describes an option without feed rolls for simultaneous application of heat and tension.

The district court, in finding Weiss less relevant than Billion, noted the continuous nature of the '912 process in comparison

with Weiss' batch process. That Weiss involved a batch process does not require, however, a finding that Weiss was not material, or that it was less material than Billion. The difference between continuous and batch processes is merely one difference to consider in determining whether the claimed invention would have been nonobvious. That difference does not undermine the importance of Weiss' teaching of a simultaneous heat-tension treatment, an important aspect of the claims.

The district court also noted there was evidence that Finlayson, together with Chavanoz, made a better reference than Weiss or DaGasso, and that Chavanoz is a better reference than DaGasso. Noting the existence of such evidence does not provide a finding subject to review. Moreover, Finlayson does not teach the key step of simultaneous tension and heat taught by Weiss, and Chavanoz refers to "minimum" tension and in a sens teaches away from the '912 invention.[9]

The district court also noted the *possibilities* that the primary examiner of the '912 patent: (1) knew of Weiss because he was also the primary examiner of the United States counterpart to Weiss and conducted prior art searches in classes that included Weiss; and (2) knew of DaGasso because he was also the primary examiner of the '724 application, in which DaGasso was cited. If the primary examiner actually knew about the Weiss and DaGasso references when examining the '912 application, that knowledge might preclude a finding of materiality. *Cf., Environmental Designs v. Union Oil Co. of Calif.*, 713 F.2d 693, 698, 218 USPQ 865, 870 (Fed. Cir. 1983), *cert. denied*, 104 S.Ct. 709 (1984) (failure to submit a page from textbook not fraud because it was already known and of record before examiner); *Orthopedic EquipmentCo. v. All Orthopedic Appliances*, 707 F.2d 1376, 1383, 217 USPQ 1281, 1286 (Fed. Cir. 1983) (nondisclosure not material because the examiner independently ascertained the existence of the undisclosed prior art). However, the district court did not *find actual*

---

[9]During the reissue proceeding, the Chavanoz reference was eliminated by a PTO Rule 131 affidavit.

knowledge by the primary examiner—it merely noted possibilities and, where inequitable conduct is at issue, mere possibilities are insufficient. As stated in *Driscoll v. Cebalo*, 731 F.2d at 885, 221 USPQ at 751: "It cannot be presumed, where fraud or other egregious conduct is alleged, that the PTO considered prior art of particular relevance if it was not cited". There is no evidence, and Lex Tex does not argue on appeal, that the primary examiner actually recalled the critical aspects of the U.S. Weiss or DaGasso patents. Nor is there evidence that the examiner principally responsible for examining the application, as opposed to the primary examiner, had knowledge of the references.[10]

D. Intent

The district court found "no clear and convincing evidence that the applicants or their attorney, believing Weiss to be relevant, intentionally withheld it from the PTO or that they acted with recklessness or gross negligence", and it found "no evidence of deceptive intent with respect to the failure to cite DaGasso in the original application". In the latter regard, said the district court, "[t]he evidence does show . . . that [applicants] believed that the claim limitations in the '912 were clearly and patentably distinguished from DaGasso".

Those findings must be determined to have been clearly erroneous. As stated above, threshold intent is established where an actor in an applicant's position would have reasonably known that the reference was material, *e.g.*, that the reference would have been important to a reasonable examiner in decid-

---

[10]Nor did appellee show that the examiner primarily responsible for examining '912 was primarily responsible for examining the U.S. Weiss and '724 applications. *Compare, Kimberly-Clark Corp. v. Johnson and Johnson*, No. 83-1U66, sl. op. at 37-40 (Fed. Cir. Oct. 9, 1984), where the court concluded "no fraud" because, *inter alia*, the examiner of the application had been the examiner of the reference. That, however, was only one of many facts enabling the court to find that the examiner actually knew about the copending reference, that the applicant knew the examiner knew about the reference and, hence, that there was no materiality or intent. Under the facts of this case, we can make no similar determination.

ing whether to allow the claims. Here, where none of the prior art cited during prosecution taught a key element of the claimed process invention, and where both Weiss and DaGasso taught that key element, the applicants for the '912 patent should have known that those references would be important to the PTO, especially in light of certain undisputed facts: (1) claim 4 of the '724 application was rejected on DaGasso; (2) licenses were taken under Weiss and foreign counterparts to Weiss; and (3) corresponding foreign applications were rejected on Weiss.

1. Rejection of claim 4 of the '724 application

Original claim 4 of the '724 application and claim 30 of the '912 patent are similar. Each require treatment of torque stretch yarn with simultaneous heat and tension. Claim 4 reads (the underlined matter was added and the bracketed matter deleted by amendment):

> Apparatus for processing textile yarns comprising means for continuously advancing said yarn from a source of supply, means for continuously collecting said advancing yarn, means to heat and false twist said advancing yarn in one portion of its continuous travel, *adjustable means to apply tension to the advancing yarn in said one portion or its travel, and means to regulate the heater means in correlation with the applied tension to produce "torque stretch yarn", [and] means intermediate said second and third mentioned means* to uniformly heat said continuously advancing "torque stretch yarn" at a [controlled] *selected* tension in a subsequent portion of its continuous travel, *and adjusting means for regulating both the last-mentioned heating means and the selected tension to control the heat and tension in accordance with the characteristics of the yarn.*

Issued claim 30 of the '912 patent reads (the underlined matter was added by amendment):

> A method of processing yarn comprising the steps of unwinding said yarn from a supply package, continuously

processing said yarn to form 'torque stretch yarn', *thereafter* continuously passing said yarn through at least one tensioning apparatus, continuously heating said yarn while under the control of said tensioning apparatus, *then continuously passing said torque stretch yarn through a second tensioning apparatus*, and continuously winding said processed yarn into a takeup package.

Claim 4 of the '724 application (in partially amended form) was rejected on October 13, 1959, on DaGasso in view of U.S. Patent No. 3,869,312 to Van Dijk. Concerning the rejection, applicant Seem stated in internal correspondence that DaGasso "does disclose our can-can [double heater] type of apparatus to continuously produce and post treat torque stretch yarn". Though applicants further amended the claim in an effort to avoid the prior art, the claim was again rejected, on November 7, 1960, on the same references. The claim was then cancelled in favor of a new claim 5, which was subsequently amended and issued.

Fully aware of DaGasso and its materiality in relation to the application that resulted in the '724 patent, applicants should have known of its materiality in relation to the '912 application. Applicants nonetheless elected not to disclose DaGasso to the examiner of the latter application.

Indeed, applicants argued that claims 35 and 36 of the '912 application were patentable over a single heater patent of their own because the '912 invention contemplates the additional step of heating and tensioning false twist yarn. That argument implies that the prior art does not teach a heating/tensioning step, yet applicants knew that DaGasso did teach that very step. Applicants also urged, in attempting to distinguish a rejection on Finlayson in view of Chavanoz, that those patents do not teach the application of heat and two degrees of tension. But applicants knew that that teaching is also present in DaGasso.

2. Licensing the British Weiss Patent

In March, 1957, Universal Winding Company, later Leesona Corporation (Universal), the then owner of the '912 application,

introduced a machine for reprocessing torque stretch yarn. Heberlein, the owner of the Weiss patent, informed Universal that sale of the machine would be a contributory infringement of the Weiss process claims. Universal took a license under foreign counterparts to the Weiss patent. Fluflon, Ltd., a British company owned in part by Stoddard and Seem, also took a license under Weiss.

The district court discounted the effect of the Universal license, viewing it as merely an "economic decision based upon a desire to avoid costly litigation over the Weiss patent since it might be considered a dominating patent under the patent laws in Europe". There is no evidence, stated the district court, that such "business judgment" amounted to gross negligence or recklessness.

We agree that taking a license may have been an exercise in good business judgment. We find the consideration irrelevant, however, to a determination of whether the failure to disclose the licensed patent, Weiss, to the PTO during prosecution of the '912 application, was grossly negligent or otherwise "intentional".

The license agreements are virtually conclusive evidence that the applicants should have known of the materiality of Weiss. Applicants may have believed that the '912 process was patentable over Weiss, but that they took a license under it in connection with the sale of their machine that performed the '912 process evinces knowledge of Weiss' importance. A failure to disclose Weiss in view of that knowledge constitutes reckless disregard of the duty to disclose.

3. Rejections On Weiss Of Foreign Corresponding

Japanese, German and British applications corresponding to the '912 application were filed during pendency of the latter. The Japanese and German applications were rejected in view of Weiss, and the Japanese application was eventually abandoned. The British counterpart was allowed despite the citation of Weiss.

The district court stated that "while the applicants were aware of the Weiss patent, there was no recognition on their part of its materiality or relevance [in the United States] because of the differences in the patent laws of these foreign countries as to disclosure, claims practice, forms of applications and standards of patentability".

Differences in foreign patent laws may in other contexts be important. They are not relevant in determining intent underlying a failure to disclose to the PTO. The controlling factor in that determination is found in the nondisclosed information itself. Whether the '912 applicants can be viewed as meeting the threshold of intent to mislead the PTO has nothing to do with rules governing disclosure, claims, applications and patentability in foreign lands. Whether Weiss should have been disclosed under those rules in those lands has no controlling effect on whether it should have been disclosed to the PTO here. That Weiss was cited and claims were rejected on Weiss in applications corresponding to the '912 application should have caused a reasonable applicant to have so recognized its materiality in the PTO as to have led to its disclosure. No requirement exists to disclose to the PTO all references cited against foreign corresponding applications; yet in the present circumstances the failure to cite Weiss in light of its citation in foreign lands is strong evidence of intent to mislead.

4. Lex Tex' Argument Re Intent

Citation of DaGasso in the prosecution of the '724 application, licensing under Weiss, and citation of Weiss in rejection of foreign counterparts of the '912 application, evince a degree of awareness of the importance (materiality) of the references sufficient to compel a conclusion that the district court's no-intent finding was clearly erroneous.

Lex Tex argues that if its narrow interpretation of the claimed "control" means was incorrect, the '912 applicants possessed a good faith belief in that interpretation, and because that interpretation renders Weiss and DaGasso immaterial there can be no finding of the necessary intent.

There is no evidence, however, that the '912 applicants actually possessed a good faith belief in the argued claim interpretation. Testimony of the applicants would have been helpful on that issue, but applicants passed away before trial without relevant depositions having been taken.

Moreover, applicants should have known that, during prosecution, claims are given their broadest reasonable interpretation in light of the specification. In *re Yamamoto*, 740 F.2d 1569, 1571, 222 USPQ 934, 936 (Fed. Cir. 1984); *In re Sneed*, 710 F.2d 1544, 1548, 218 USPQ 385, 388 (Fed. Cir. 1983); *In re Marosi*, 710 F.2d 799, 802, 218 USPQ 289, 292 (Fed. Cir. 1983); *In re Heck*, 699 F.2d 1331, 1332, 216 USPQ 1038, 1039 (Fed. Cir. 1983); *In re Prater and Wei*, 415 F.2d 1393, 1404-05, 162 USPQ 541, 550-51 (CCPA 1969); *In re Kebrich*, 201 F.2d 951, 954, 96 USPQ 411, 414 (CCPA 1953); *Ex parte De Grunigan*, 132 USPQ 152, 156 (PTO Bd. App. 1958). Hence, applicants' narrow claim interpretation, if it existed, would have been unreasonable.

In all events, prosecution of the '724 application indicates that the '912 applicants did not possess the now-asserted belief in a narrow claim interpretation. Claim 5 of the '724 application, and claims dependent thereon, were allowed only after they were amended to change the "tension controlling means" to "tension controlling means including positively driven feed rolls between said heating device and said false-twist device". Applicants argued:

> It is submitted that claim 5 is patentable over the Italian patent [DaGasso]. The claim clearly defines the tension-controlling means as including positively-driven feed rolls between the heater and the false-twister whereby the second tensioning means is adjustable independently of said first-mentioned means.

By that amendment, applicants conceded that "tension controlling means" does not impliedly include "positively driven feed rolls".

Further, a good faith belief that claims should be narrowly construed to avoid uncited prior art will not necessarily or always preclude a finding of recklessness or gross negligence in failing to cite that art. The references may be important in assessing patentability, whatever may be the applicant's view. In *Driscoll v. Cebalo*, 731 F.2d 878, 221 USPQ 745 (Fed. Cir. 1984), applicant cancelled a claim he believed was anticipated by a Canadian reference, replacing it with a claim that he believed avoided that reference. This court refused to give controlling effect to applicant's subjective determination that the new claim avoided the art. A finding of intent was reached in *Driscoll*, notwithstanding contemporaneous evidence that the applicant there did believe the new claim avoided the art. Here, where there is no evidence of good faith belief in the narrow claim interpretation, and there is contrary evidence, a finding is compelled that the intent element of inequitable conduct is clearly present.

5. Balancing Materiality and Intent

A high degree of materiality was present here. The PTO standard was easily met by the close relationship of the Weiss and DaGasso disclosures to the claims of the '912 patent, as reflected in the citation of Weiss and DaGasso by the reissue examiner.

There was also a relatively high degree of intent. If there were no deliberate scheming, there was clearly reckless or grossly negligent activity. Applicants clearly should have known of the materiality of Weiss and DaGasso, especially after they took licenses under Weiss and its counterparts, had their foreign applications rejected on Weiss, and had similar claims in their virtually identical CIP application rejected on DaGasso.

Balancing materiality and intent, we are compelled to conclude that "inequitable conduct" occurred. Accordingly, all claims of the patent must be held unenforceable.

CONCLUSION

That portion of the final judgment holding the claims in suit not unenforceable is *reversed*. The remaining portions of the judgment are vacated as now moot.

REVERSED-IN-PART; VACATED-IN PART

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

No. 84-754 through 84-761

J. P. STEVENS & CO., INC., *et al.*,

Appellees,

v.

LEX TEX LTD., INC.,

Appellant.

ORDER

A petition for rehearing and a suggestion for rehearing in banc having been filed in this case,

UPON CONSIDERATION THEREOF, it is Ordered by the court that the petition for rehearing be, and the same is hereby, Denied.

The suggestion for rehearing in banc is declined.

FOR THE COURT

George E. Hutchinson, Clerk

February 26, 1985
Date

cc: James W. Crabtree
Francis T. Carr

APPENDIX D

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

MDL Docket 82

IN RE YARN PROCESSING
PATENT VALIDITY LITIGATION

ORDER ON MOTION FOR CERTIFICATION AND A STAY UNDER § 1292(B)

I HAVE GIVEN CAREFUL CONSIDERATION TO THE THROWSTERS' MOTION FOR CERTIFICATION AND A STAY UNDER § 1292(B). I AM CONSCIOUS THAT A REVERSAL OF MY RULING ON THE EQUITABLE DEFENSES WOULD ABORT ANY JURY VERDICT ON THE ISSUES OF LIABILITY AND DAMAGES.

MY ANALYSIS OF THE EVIDENCE AND THE LAW CONCERNING THIS SECOND PHASE, I.E., THE INEQUITABLE CONDUCT OR FRAUD, TELLS ME THAT IT IS, AT BEST, A MIXED QUESTION OF LAW AND FACT.

I AM AWARE OF RICHARDSON-DAVIS MEMO, THE REJECTION IN GERMANY AND JAPAN BECAUSE OF WEISS AND THE LICENSING THROUGH FLUFLON, ALL OF WHICH POINT TO THE APPLICANTS' KNOWLEDGE OF WEISS.

NEVERTHELESS, I HEARD CREDIBLE EVIDENCE THAT FINLAYSON, TOGETHER WITH CHAVANAUGH, IS A BETTER REFERENCE. BOTH FINLAYSON AND CHAVANAUGH WERE CITED TO THE PTO AS PRIOR ART. LIKEWISE, REASONABLE EXPERTS DIFFER AS TO THE MATERIALITY OF WEISS.

CONSIDERING THE EVIDENCE AS A WHOLE, I DO NOT FIND THE THROWSTERS HAVE PROVED RECKLESSNESS/GROSS

NEGLIGENCE BY CLEAR AND CONVINCING EVIDENCE AS WAS THEIR BURDEN.

ACCORDINGLY, THE MOTION FOR CERTIFICATION AND STAY IS DENIED.

DONE AND ORDERED AT MIAMI, FLORIDA, THIS ____ DAY OF SEPTEMBER, 1982.

UNITED STATES DISTRICT JUDGE

COPIES FURNISHED:

SMATHERS & THOMPSON
FOWLER, WHITE, *ET AL.*
DANIEL KAVANAUGH, *ESQ.*
BLACKWELL, WALKER, *ET AL.*

EXHIBIT A

Patent No.	Filing Date	Issue Date	Assignee	Cited Weiss	Cited DaGasso	Primary Examiner	Asst. Examiner
3,091,912	4-[illegible]-57	6-4-63	Lex Tex	No	No	Mader	Stein Petrakes
3,077,724	9-9-57	2-19-63	Lex Tex	No	Yes	Mader Parker	Petrakes Faw
3,125,846	10-14-59	3-24-64	American Enka Corp.	Yes	No	Mader	Petrakes
3,131,528	8-10-59	5-5-64	Devokins Ltds.	No	Yes	Mader Parker	Petrakes
3,029,591	8-22-57	4-17-62	Sydney & Scragg, Ltd.	No	Yes	Parker Mader	Mackey Rimrodt
3,042,990	9-7-56	7-10-62	Lufkin Rule Company	Yes	No	Mader Parker	Jaudon Fitzsimmons

COMPARATIVE ANALYSIS OF PETITIONS FOR WRITS OF CERTIORARI COMPLAINING OF *DE NOVO* FACT FINDING BY THE CIRCUIT COURTS OF APPEALS

Circuit	Total Petitions	Petitions on Point	% on Point
1st	107	0	0%
2nd	347	2	0.6%
3rd	334	4	1.2%
4th	231	3	1.3%
5th	397	7	1.8%
6th	320	3	0.9%
7th	292	4	1.4%
8th	204	6	2.9%
9th	574	4	0.7%
10th	143	1	0.7%
11th	353	2	0.6%
DC	175	0	0%
(All circuits combined, excluding CAFC)	3,447	36	1.0%
CAFC	92*	9*	9.8*

The data in this table was compiled using information from the Cases Docketed tables of *U.S. Law Week*, Section 3, Supreme Court Proceedings (hereinafter, *U.S. Law Week)* during the period Nov. 9, 1982 through March 12, 1985, which encompasses U.S.L.W. Vol. 51 No. 18 through Vol. 53 No. 35. The total number of Petitions for Writs of Certiorari emanating from each circuit court of appeals was noted for each issue of *U.S. Law Week* during this time period. Cumulative totals were compiled and all abstracts referencing "5 U.S.C. 706", "Rule 52(a)", "Appellate Fact Finding" or "Appellate Review" were noted. *U.S. Law Week* case summaries were then consulted for each noted case to determine the issues raised. Cases not summarized were checked by reviewing the Petitions for Certiorari on file in the Supreme Court. Cases on point were then tabulated to provide a circuit by circuit breakdown.

---

* Includes this Petition